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Public Utility Number

For

Mid-Year Reinvestment

Over Two Hundred Investment Suggestions In This Issue

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WITH THE EDITORS

Why Not Speak the Truth?

THERE is no subject more important to most men than Money. Hence, the almost universal interest in anything said or written about it. Yet, it is probably the one subject about which more misinformation is circulated than any other. This is especially true of the majority of stuff written about the stock market. Yet, aside from professional financial writers who have spent a lifetime in studying the investment field and, hence, are familiar with its nature, few of those who are actually in possession of the real facts on the market care to discuss it publicly.

One should not, therefore, pay too much attention to a great deal of what is being written on subjects relating to the stock market, unless it is known that the sources are authoritative. Much mischief has already been done by "uplifters" who have proclaimed to the world that Wall Street is a product of His Satanic Majesty and that the Stock Exchange is a den of thieves and robbers. Those who have circulated such statements have been least in the position to know since, ostensibly, as virtuous men they could not have defiled themselves by having any contact with the stock market. But this type of mischief-maker is by now pretty well understood by the public and his influence has been considerably diminished.

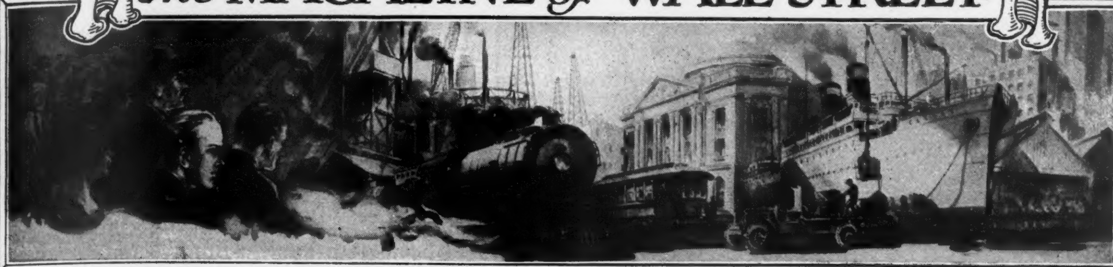
There is another type, however, who, though well-meaning, has created possibly even greater damage than the ignorant critic and that is the business leader or writer with a high reputation among the public, and who conceives it his duty never to say or write about economic conditions in this country unless in a spirit of eulogy. These are the men whose published statements are invariably optimistic, regardless of conditions.

One of the most famous editors in the United States, a man of great ability and understanding, but not on finance, recently delivered himself of this statement: "This country's wealth is estimated at 350 billions and yet it owes only 17 billions. No wonder securities constantly increase in price." The gentleman, however, forgot to say that while the country's wealth is estimated at 350 billions and the public debt is only 17 billions, the total amount of debts of all the corporations and business firms in the United States would pretty nearly equal the estimated wealth of the country. He also forgot to say that not half of the business firms in the United States report a profit to the Government.

Does it seem necessary to give out such misleading statements? We all grant that the United States is an immensely wealthy and prosperous country and that its economic future is assured for a long time to come. With this fundamental belief in mind, would it not prove of greater service to the public if it were pointed out not merely that we are a great and growing nation but that in many instances we are not making sufficient use of our opportunities and that there is plenty of room for criticism. That instead of intimating, as the editor did, that securities must advance, they as frequently decline, with disastrous losses to investors? That instead of insinuating the path of the investor is strewn with roses, it frequently is covered with thorns? That it takes skill and foresight for the individual investor to make his investment capital increase in value, and not that speculation is quick and certain in its rewards?

We, for one, prefer to be openminded about these matters. We believe constructive criticism a wholesome thing. We do not feel that a service is done to investors by alleging that mere residence in this fruitful country is in itself a guarantee of individual wealth. We believe it would be better for the country if those in a position to know would speak a little more frankly. We are strong enough, as a nation, not to require coddling.

The MAGAZINE of WALL STREET



EDITOR
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INVESTMENT & BUSINESS TREND

The Political Mix-up—Underlying Factors in Business Conditions—Refunding Operations and Their Effect on Securities—Two Sides to the Wheat and Corn Situation—The Market Prospect

PRECEDED by a series of upsets for Administration candidates in the Senatorial primaries, the recent defeat of the McNary-Haugen bill, while a technical victory for the President, would seem to hold forth unpleasant possibilities for the party in power as regards the next Congressional elections. Even the President's support of the substitute Fess bill, which was killed by a substantial vote in the Senate, is hardly likely to placate the rising resentment of the farming population in the Western states. It is generally admitted that even before the defeat of the McNary-Haugen bill the President had alienated the support of the farm vote. His effective hostility to this measure can hardly have improved his position.

Acute political observers agree that while the President is still personally strong with the rank and file of the population, he has lost prestige in the wheat belt and that he is likely to lose needed Senatorial votes after the next elections. The fact seems to be that of those up for re-election to the Senate, the Democrats are the most certain of holding on to their seats and that a number of Administration candidates are likely to join the lame-duck class. The situation in the House is no better from the Administration viewpoint. If, as seems probable, the complexion of the next body of Congress is Democratic, the Administration will have its troubles. One of the really significant aspects of the entire situation is that the next Congress will precipitate a violent onslaught on the Fordney-McCumber tariff, in which event the President will feel keenly the loss of Congressional support which he seems destined to face.

BUSINESS SITUATION

THE mass of available statistics on current business conditions is apt to mislead those who do not know how to interpret these figures. One example may be cited. Railroad car loadings are at peak figures and have shown a stupendous total for the year to date. Analyzing these figures we find that "less than carload lots" make up a good percentage of the total and that the actual volume of freight hauled is somewhat less than for the preceeding year. Thus, while the railroad situation is still very good and is likely to continue so, a real comparison would show that so far as traffic is concerned the roads are not doing quite as well as car loading figures would seem to signify.

The same impression is received from studying figures on automobile production which is making a favorable comparison even with the huge output of last year. Here we find that sales are being forced via the means of offering such inducements to buyers as could only indicate the extremely competitive conditions now prevailing. As a matter of fact, while production still continues very high, it is significant that several of the more important companies are showing less earnings than last year, by a considerable amount. The same general situation applies to automobile accessory and tire manufacturers.

Textile and shoe mills are seriously affected by over-production. Drastic changes in prices of chemicals are taking place. On the other hand, steel conditions continue surprisingly good, merchandising is active and building, while showing signs of weakness, is still holding up. A significant feature is that farm purchasing power is about 7% less than last year.

REFUNDING OPERATIONS

AS a result of the much lower interest rates, as compared with 1921 and 1922, when new financing was very costly, the rate of refunding high-coupon bonds has greatly increased. Wherever corporations can cut down on their interest obligations, they are doing so, this, of course, depending on their earnings and general financial condition. Owing, however, to the great economic improvement of this country during the past few years and to the greatly increased earning capacity of well-managed corporations, a considerable percentage of those who were compelled a few years ago to finance on onerous terms have already refunded these obligations or are shortly preparing to do so. This is probably one of the major influences today in the remarkable showing of many companies in regard to their increased earnings on their shares.

WHEAT AND CORN

RECENT estimates indicate that the wheat and corn crops this year in this country will be much larger than expected. This is rather unfortunate from the farmer's viewpoint since it tends to keep the price of the commodities down. On the other hand, the increased bulk of the crops means extra haulage for the railroads which traverse the wheat and corn belts and, hence, increased earnings.

Aside from the railroads especially affected by crop conditions it is doubtful that the latter are having their old influence on general business or security conditions. In former years, the size of the wheat and corn prices very often had an immediate effect on business and securities. By this time, however, we have grown so tremendously as an industrial nation, our interests are so enormously ramified, that even the important grain crops no longer command their once overpowering influence. At the same time, however, we have not yet got to the point where we can dismiss this situation from consideration. The farmer is still a vital element in the country and anything that happens to him is still of great interest to the rest of us.

COPPER

DURING the past two years, a rather remarkable transformation, not generally appreciated, has gradually come over the copper situation. Thus, world production has in two consecutive years, 1924 and 1926, been outstripped by world consumption. In answer to the question as to why prices have not therefore risen, one can only point out the uncertainty in the minds of producers caused by the huge potential production and the possibility that if prices were largely increased, an inducement would be held out to high-cost producers to increase their production so that eventually all would again suffer. As matters stand today, the low-cost mines are in a position to draw satisfactory profits even on the present price scale. On the other hand, the very steady increase in consumption must inevitably tend to increase production, or world supplies will actually run short. In that case, due to this natural balance of supply and demand, prices could advance somewhat, thus tending to favor those mines in the medium-cost category. As for the high-cost mines, it is not likely that they can operate at a profit for a very long time, as the prospects for high copper prices are dubious to say the least.

MARKET PROSPECT

PART of the market is pursuing an orderly course toward higher levels, but, as heretofore in this unusual upward stock movement, virtually the only issues making a good showing are the sound dividend paying stocks. The public, encouraged by the market's persistent climb, is venturing on the buying side in increasing numbers. Business prospects seem rather better than expected and this is accepted as sufficient basis for continued market strength. Actually, present and prospective ease in money rates is the more important factor. Where warranted by specific developments, operations for the rise in individual issues are likely to continue but it is to be doubted that a sympathetic upward movement will take place in the general body of stocks. The bromidic caution of discrimination is always in order but never more so than today. It is not the type of market from which as much need be expected as from the ordinary upward cycle, so far as ease in making profits is concerned.

Monday, July 12, 1926.

Stupendous Growth of Public Utilities An Outstanding Feature of this Century

An Appreciation of a Really Notable Achievement

NO clearer illustration of the great, dynamic changes which have taken place in this country since the beginning of the century can be given than the record of our public utilities. Even so recently, as time goes, as 1900, our utility systems were a straggling assortment, managed by well-intentioned but, owing to the youth of the industry, often inexperienced or inefficient men. Spun out over a tremendous continent with a rapidly increasing population, public utility services hardly commenced to match the fundamental needs of the time. But, in the brief span of a quarter century, the industry, in all its ramifications, has grown from awkward adolescence to giant stature.

Where, at the beginning of the century, there were only a half million customers of the electric light and power industry, there are now seventeen million. Electric output has increased from 2.5 to 55 billion kilowatt hours. Gas sales have advanced from 90 billion to 405 billion cubic feet. Telephone customers have increased over 500%, from 2.3 to 14.3 million. These figures, to which many others could be added, tells a convincing story of growth.

During this period, value of investments representing public utility property has grown to considerably over 20 billions so that today the investment in the public utilities is even larger than that in the railroads. Compared with utility investments, those in other industries, outside of the railroads, seem small. It absorbs new capital in excess of a billion dollars a year.

* * *

THERE is no question, obviously, of the tangible growth of the public utility industries. But we find as great progress among the more intangible phases. Earlier in the century, partly owing to the wrong conception of public utility managements regarding their relation to the public and partly owing to the equally faulty conception of the public regarding the true nature of the public utility business, the companies became objects of suspicion and animosity. The principle of regulation then developed but soon degenerated into a spirit of persecution. Utility companies became the football of politicians, a situation which still exists in some parts of the country.

The injustice of this situation, coupled with the dawning belief that continuation of retaliatory tactics would eventually prevent future growth and development of public utility services, to the disadvantage of the entire population, has led since the war to a rather different attitude by the public toward these properties. It is now quite commonly realized that in order to provide efficient and cheap services, the utilities must be permitted adequate rates. This, generally, is the principle under which the various Public Utility State Commissions are operating though it is only fair to state that they have been urged in this direction by numerous Court decrees, setting forth the basic principle of an adequate return to public service corporations.

* * *

AT any rate, whatever the underlying factors in the situation, there is no question that the general relations between the public and the public utility companies has become far more congenial. This has been aided by the statesmanlike efforts of a number of utility companies to interest their customers in the idea of becoming part owners in the companies which give them service. The growth of what is known as the customer-ownership movement, has become one of the really vital factors in the entire relations of public and utility corporations.

As a result of this entirely new situation, public utility earnings have expanded steadily, not, however, at the expense of the communities served. Rates are still equitable and the public is willing to pay them in exchange for efficient service. As earnings grew, the value of public utility investments grew. Today, they rank with the best so much so that in an increasing number of States, public utility bonds are being made "legal" for savings bank institutions, thus placing this type of security on a par with the gilt-edge railroad bonds. Having indicated its great progress during the past quarter century, there are ample proofs that the industry will continue to forge ahead and expand its services wherever communities continue to grow. Hence, it is a reasonable assumption that, as investments, the utilities will not only maintain their present favor but continue to grow in public estimation.

* * *

BECAUSE of the vital nature of this industry and because of the dynamic changes which have taken place and are taking place at the present, we have conceived it a matter of public service to present the entire facts of the situation to our readers, which we have done in the present issue in our enlarged public utility department. We have done this not only to present to them the various investment aspects of this most important field but to acquaint them with the fundamental changes taking place in the industry, so that they might be in a better position to judge for themselves the nature and prospects of its growth. To the numerous experts in the field who have aided us in the preparation of our Public Utility Section we desire to express our great appreciation of their generous cooperation.

Are Our Corporations Building Up Their Cash Assets At the Expense of the Individual Shareholder?

By GEORGE B. COLLINGWOOD

ARE shareholders receiving a just return on their investment? Is there after all something to say against that type of conservative corporation management which will withhold adequate dividends or which, having piled up tremendous cash reserves, refuses to disburse part of them to the shareholders? There is much to say on both sides. Read this article for an illuminating discussion of this most important situation.

A DOLLAR in the hand is worth two in the corporation treasury. Probably every shareholder will subscribe heartily to this maxim. Not so with many corporation officials and directors.

The question is no longer academic. There has been a growing tendency of officials in powerful corporations to ignore shareholders' demands for larger cash disbursements, and to exult in overgrown treasury surpluses. These overgrown surpluses are characteristic of a host of companies, both large and small. The graphs accompanying this article give a few shining examples, but they have been culled out of a fairly representative group.

An overgrown surplus is one that is far beyond the ordinary business requirements of the corporation possessing the surplus, plus the somewhat extraordinary requirements against possible losses within the reasonably near future. Instead of distributing this surplus to their stockholders, many corporations have either become investment trusts, or bankers lending money on call, or have unduly expanded their lines of business purely as a consequence of this excessive surplus. The net result is that the corporation grows more and more powerful, but the income return of the investor, here and now, remains what it was before the corporation attained to its present strong position.

At this point, it ought to be said that the purpose of THE MAGAZINE OF WALL STREET is not in any way to condemn sound, conservative corporate policy. It is not attempting to open up the sluice gates for a flood of dividends that will deluge the investment field, but will leave the companies' cash reservoirs empty. This ruinous policy is characteristic of promotions rather than of companies whose aim is to be immortal, forever turning out dividends for their stockholders. The average board of directors knows of the wishes of stockholders and they are perfectly honest in their conservation of surpluses. *But the question that arises concerns establishing a principle which will mark the limits of sound conservatism on the one hand, and excessive and injurious conservatism on the other.*

A public stock corporation is an artificial person existing only to give a constant and large income to its shareholders. It is the only object of its existence. It is not supposed to reward shareholders at an unduly remote time. Hence, the question requires critical study, both from the corporation's viewpoint and that of the investor.

"Melons" in Cash Ought to Be a Normal Procedure

No sane corporation disburses all of the net profit, gained by it in the course of a year, for dividends. It usually makes a provision for re-investment, the so-called ploughing back of profits into the company, allocates a reasonable proportion of its profit to profit and loss surplus, and sometimes creates special reserves either against depreciation, taxes, insurance, pensions, or many other special contingencies peculiar either to the company or to the industry in which it operates.

All of these allocations and re-investments are proper, do and must precede in rank any dividend disbursements. The reason they precede dividends is that they are the necessary means whereby dividends may be earned at all. Let there be an inadequate surplus, and a deficit in earnings for several years may compel either bankruptcy, a costly re-organization or a costly re-financing by way of senior obligations. All of these would injure the position of stockholders. Let the corporation neglect reserves for depreciation and obsolescence, and a new technical discovery may terminate its earning power. *It is of the utmost importance that earning power on common stock be insured.* Surpluses, after all, are nothing else than the private insurance fund of a company, and the annual additions to surplus are nothing more than premiums paid into this insurance fund.

This is a legitimate use of surplus. *Any other use whatsoever is illegitimate.* Ample insurance is all than can be pleaded for surpluses. To employ the surplus as an investment fund, or as a wedge for corporate purposes, other than safeguarding earnings from normal commercial or industrial operations is a use of surplus that is not called for by sound corporation policy. It counters the only object of a corporation. This exclusive object, as we have previously stated, is an adequately guaranteed earning power derived wholly from the company's direct operations, and disbursed, with great frequency, to the maximum compatible with safety, in the shape of cash dividends. Occasional special deviations may be called for on account of taxation, which may compel accumulation of surpluses, or distribution by means of stock dividends, but apart from taxation there is no factor whatsoever that should deflect corporations from the policy here outlined.

In addition to the maximum of annual cash dividends, however, every healthy and growing company occasionally should be in a position to declare a large special cash dividend. The reason is simple. When provision is made for surplus, year after year, the company must err on the side of conservatism. Hence, every year more is added than is needed. After a time, the accumulation of these excessive allocations to surplus results in an obviously excessive surplus. This excess, then, is what should be distributed in the shape of a cash "melon."

The only exception to this provision is in the case of companies whose surpluses represent so speedy an increase of earning power, that there is more certainty that the corporations can make extremely large returns than there is of the investor being enabled to use the cash disbursement to equal advan-

tage. To be entitled to such an exceptional rating, a corporation must literally show that it is able to make money "hand over fist" and at an increasing rate of return. Apart from such altogether special situations, the rule holds good. Constant small excesses of surplus allocations should lead eventually to a cash "melon." Even in the case of the exceptional corporation, stock dividends, and liberal stock dividends at that, are in order.

A concrete example of how cash "melons" work out is shown by the United States Treasury Department reports of corporation income tax statements. In a typical recent year (1922) for example, 79,000 corporations showed a net taxable income of 5.390 billions. About 2.780 billions were disbursed in dividends and nearly all the rest found its way into corporate surpluses. Corporate surpluses throughout the United States increase at the rate of about two billions in good years, and more than one billion in most poor years. These 79,000 corporations showed a surplus of about twenty billions. The difference between dividend disbursements and net taxable income was about as large as the amount disbursed in dividends.

Now let us assume that four more years pass. Corporate surpluses by now will amount to more than 28 billions. This surplus is 40% greater than in 1922. The business of this country has not grown by anything like 40% in these four years. *In other words, it may be laid down as a law, that over and above dividend disbursements, American corporate surpluses increase at a rate greater than that of commercial needs. A portion of the difference between the increase in legitimate needs for surplus and the actual surplus gains, should then be disbursed as cash dividends.*

This situation is truer today than it was before the war of 1914. It was customary for corporations prior to 1914 to disburse about two-thirds of their net taxable income as dividends, allocating only one-third to surplus. The rate of cumulative growth was obviously very much smaller than today. What changed the situation?

Beginning with 1916, the year of the greatest corporate profits, dividend policy made a radical departure, since retained. About one-half of net profits were disbursed in dividends. Heavy war taxation supervened and confirmed the tendency. In a sense, the much critized boards of directors throughout the country acted with great fidelity as trustees of stockholders' interests. Surpluses were built up in such a manner as legitimately to reduce taxation. It would be more just to say that earnings were not made obvious, so that the true gains of the corporations were reserved for later disbursement to the stockholders.

With the repeal of war taxes, however, and a lower taxation schedule generally, the need for such a policy has passed. In fact, it is admitted that if corporations go on building up surpluses, in the shape of plough-backs, such accumulations will become the object of agrarian and radical attacks and be made the objects of heavy taxation. It would be best to diminish swollen surpluses, if for no other reason than that the tax-gatherer should not take away what for years has been withheld from the shareholder.

This reduced rate of dividend payments, as a proportion of total earnings, has led to the very interesting situation of the excessive surpluses characteristic of so many sound companies. This is true of all lines of endeavor. For example, despite the infinity of differing seasonal ups and downs, and cycles of demand, practically all corporations in these varying industries, will show a similar range of dividend policy. This simplifies considerably the discussion of such questions.

What a Cash "Melon" Must Not Do

Granting that many large corporations can disburse extra cash dividends out of their redundant surpluses, it does not follow that these can be stripped to the bone. It is characteristic of stock market rumors at the present moment, that large surpluses, whether true surpluses, capital surpluses, or mere bookkeeping surpluses are all bunched together, and nearly the whole amount divided by the number of common shares outstanding, and, lo, fabulous dividends are demanded and predicted.

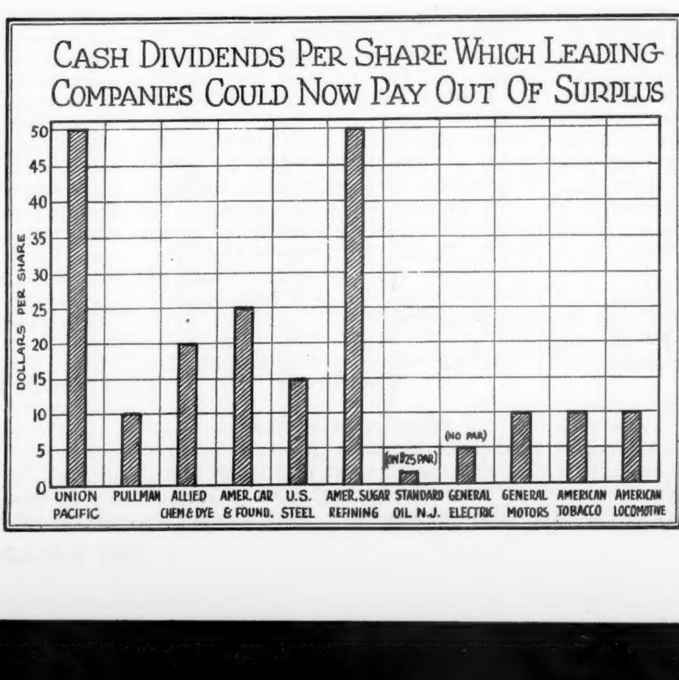
It is probably this kind of loose talk, common enough even in responsible circles, that has moved the disdain of boards of directors familiar with various situations and knowing the exact function of surpluses in the life of active corporations. It behooves the thoughtful investor to ask just how far a corporation can reduce its surplus, and yet not do certain things which in the long run are bound to do more damage to the investor's interests than the withholding of a share in that surplus does now.

The liquid position of the company must remain intact. For example, let us take the balance sheet of the General Electric Company. It shows apparently delectable surpluses. Its General Reserve is 25 millions, Special Reserves 4 millions and Profit and Loss Surplus fully 85 millions. About 114 millions is the ostensible surplus. On the assets side of the ledger we read of 75 millions in cash, 62 millions in Liberties and 12 millions in investment securities, other than in subsidiaries. To the rough and ready figurers, out of the surplus of 114 millions, 90 millions, say, could be disbursed, and a convenient figure of 24 millions remain. This would be ample. There are 7,200,000 shares of common (new issue, no par) outstanding. Let us disregard the special stock for the moment.

The pundits argue that a special $12 cash dividend per share should be in the offing. But even an amateur can see that this would leave the General Electric Company in a position where it might have to float senior securities in order to take care of expansion needs. It would also be far from being the great corporation, secure against bad times, that it is now. Its investments and cash would be reduced by more than one-half. Its liquid position, while remaining good, would not be exceptional.

Now let us assume a special cash dividend of $5. This would reduce the various surpluses from 114 millions to 78 millions. Earning power per share would still exceed dividend requirements. Liquid position would still be unsurpassed. Insurance against negative contingencies would still be more than ample. This $5 a share then is pure excess, while the $12 a share special dividend would be excess only to extravagant minds. For $5 a share the Liberty Bond account alone would be diminished by three-fifths whereas cash and investments would remain untouched. Yet, the stockholder would have benefited to a point comparable with $20 per share on the old stock. It is this type of conservative disbursement for which THE MAGAZINE OF WALL STREET argues and not the cash "melons" that will change the very character of corporation policy.

On account of our solicitude for liquid position, ample reserves against contingencies,



CASH DIVIDENDS PER SHARE WHICH LEADING COMPANIES COULD NOW PAY OUT OF SURPLUS

Cash "Melons" Which Could Be Cut by Leading Companies in Static Industries

PIPE LINE COMPANIES

Company	Shares Outstanding (Thousands)	Cash and Investments	Income from Investments	Income from Operations	Total Earned per Share	Could Disburse per Share	Recent Price	Yield
Cumberland	30	$2,681,000	$130,000	$236,000	$12.25	$50	$108	11.1%
Eureka	50	2,482,000	93,000	50,000 def	86	20	56	7.14
Indiana	100	4,600,000B	201,000	554,000	7.55	20	68	5.88
N. Y. Transit	50	1,648,000B	103,000	138,000	4.87	10C	48	10.40
Northern	40	2,863,000B	170,000	136,000	7.77	25	75	8.00
Southern	100	7,575,000	276,000	85,000 def	1.91	50	70	5.71

B—Working capital. C—Paid $80 in 1922.

NEW ENGLAND TEXTILE MILLS

Company	Shares Outstanding	Working Capital (Excluding Inventories)	Could Disburse per Share	Working Capital After Disbursement	Recent Price	Dividend Rate (Regular) A	Yield
Farr Alpaca	144,000	$6,024,000	$20	$4,144,000	$165	$8.0	4.84%
City Mfg. (N. B.)	7,367	586,000	20	438,000	102	6.5	6.37
Draper Corp.	175,000	4,158,000	10	2,438,000	130	8.0	6.15
Soule Mill	12,600	439,000	20	187,000	155	8.0	5.16
Sagamore Mfg.	30,000	1,640,000B	10	1,340,000B	150	8.0	5.33
Quissett Mills	20,000	1,581,000	40	781,000	105	8.0	7.62
Pierce Mfg.	6,000	2,217,000B	50	1,917,000B	350	32.0	9.14
Pepperell	76,680	5,171,000	10	4,405,000	116	8.0	6.84

A—Regular rate often supplemented by extras. B—Includes inventory.

etc., we are not nearly as extravagant with reference to cash disbursements as are the more bullish elements in the market. Nevertheless, wherever a large disbursement is called for we have not hesitated to say so. Union Pacific, for example, could disburse $50 in cash per share, and yet be not injured one tittle.

The second consideration is that of earning power per share. Corporate earnings are frequently a compound of two factors, income from commercial and industrial operations, and other income from investments, etc. In the case of Union Pacific, for example, although 88% of its fixed charges are met out of this other income, yet were it to disburse $50 per share it could still pay out $8 per share with ease and perhaps more. The stockholder would obtain $50 in cash now, and lose 4% of that amount per annum, or $2 per annum in the future. He would be well ahead on the exchange. It is even possible that the present annual $10 rate could be maintained, and that the investor would obtain the $50 in cash and lose nothing at all in annual income.

A simple rule, therefore, works in the case of cash dividends, where such cash dividends would deplete a source of earnings. Where the amount of earnings so diminished compels a reduction of dividends, the ratio of the reduced dividends to the cash "melon" must be 5% or less. Up to that point, a cash "melon" is profitable; after that point it may still be quite profitable and desirable, but it is not an unmixed boon. In our graph picturing the dollars per share that could be paid out, we have borne this ratio in mind.

The third and less important provision concerns the depletion of collateral pledged against collateral bonds. It is only where these security holdings can be diminished either by a profitable refunding of the collateral issues in the form of debentures or junior mortgage issues, that such collateral can be figured as at the disposal of the stockholder.

In no case should profit and loss surplus be diminished below a figure equivalent to two years' losses, depreciation included, which have shown to be within reasonable possibility in recent years. To strip the profit and loss surplus below such a generous estimate of possible misfortune, is to court disaster for the company.

Declining Industries Need Less Surplus Than Others

It is frequently held that any company, the character of whose business is such that it must face either static or receding earnings, needs a surplus more than any other, since it is not by way of increase of earnings that its surplus is likely to be augmented. The truth is the other way around. As pointed out previously, surpluses are needed most by such exceptional companies as are increasing earnings by leaps and bounds.

Concerns that are in a position where their liquid assets, or rather working capital exceed their market value are sometimes market opportunities, but sometimes they foreshadow a profitable liquidation. Such concerns ought to pay out all their earnings in cash dividends, or if their earnings are small, rather cut their surplus to a point where they can either diminish operations or liquidate.

Many a New England mill is in a position where it has the capital of a good-sized bank stowed away in its Treasury, accompanied by antiquated machinery and antiquated selling methods. Such a situation is a travesty on the purposes of surpluses and must be condemned out of hand. Many Pipe Line companies are in the same position. Typical stocks in both of these groups have been listed in our table as exhibiting a surplus situation that is contrary to sound corporate policy.

In the case of a single mine or oil well, which is clearly a liquidating proposition, this is recognized, and payout includes surplus in every form. A worked-out industry, or worked-out en-

terprise, is like a worn-out mine—it is a capital depletion proposition. Its surplus belongs to its shareholders and its memory to the public. Let it delay such distribution, and unless it sinks its surplus into promising schemes for revivification of its business, it will find continuing losses eating up its surplus, and the business and the surplus gone together. The lesser of the two evils should be chosen, and at once.

It is plausibly argued that the stockholder loses nothing by a policy of building up surplus instead of a more liberal distribution in cash. He has, so they argue, three compensations. The first concerns earning power per share from the surplus. With this we have already dealt. The second concerns returns on the investments of the corporation equalling or exceeding returns on the same amount of money which could be obtained by the investor were he to obtain the cash and invest it himself. This is held to be especially true when his shareholdings are few, and his interest almost fractional.

Obviously, the argument turns upon the assumption that the earnings of the corporation per share, while not immediately available to the shareholder, are implicitly his, and, furthermore, that the market value of the shares represents these implicit earnings and augmented asset value. In plain words, this leads to the third alleged compensation, that the market value per share can be taken at will, and that this increased value is an asset of the shareholder in the same sense that cash holdings are an asset. Such a position assumes two factors. One is that the stock market automatically reflects the increased asset value per share implicit in surplus. The second assumption is that this gain would persist in despite of market fluctuations.

The first proposition is by no means true. The stock market has many reasons for appraising securities. The combination of all of these factors is the market price. Earnings per share, and resultant gains in surplus, and, hence, in ultimately enhanced asset value, is one factor. It may or may not be the determining factor. But cash on the other hand is one factor, all by itself. The conclusive reply is the action of the stock market as a whole insofar as it affects any one stock. If the theory were true then as assets values advanced year by year in successful corporations, their market value would rise in that proportion. What are the facts? We have had bull markets and bear markets, and stock have gone up and down in wide swaths, the good sharing to some extent the fate of the bad, at least, temporarily. In the meantime, additions to corporate surpluses, with the possible exception of 1921 have been the rule among all sound corporations. Compare this steady gain in asset value, even by differing amounts each year, with the wide market fluctuations. When the stockholder needs cash at such a moment, he has had all of these gains cancelled in the market, whereas had he obtained the cash it would have been his own, to do with as he pleased.

What the Corporations Fear

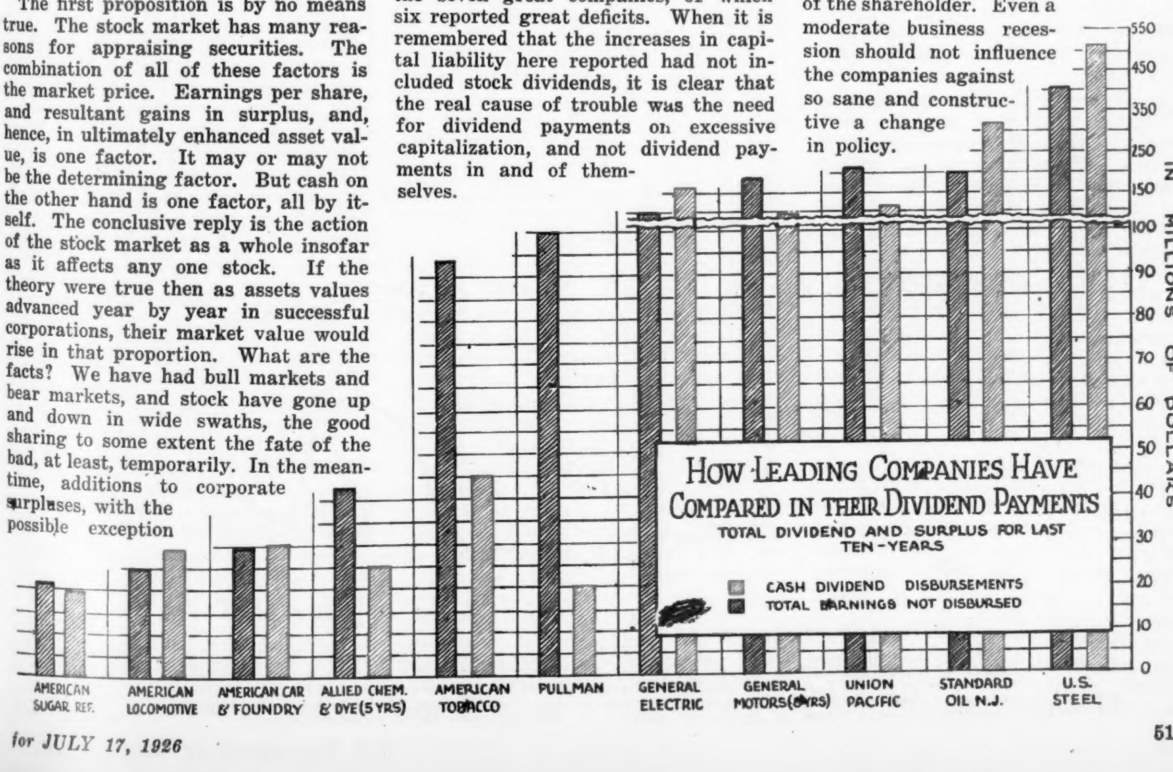
Corporations have not followed a policy of building up surpluses to the extent that they have without a real basis in experience. They remember the year 1921, in which deficits were shown that were at least equal to the gains of 1920, and in the case of many of the so-called "war brides" wiped out the gigantic profits of years. So long as the 1921 situation remains fresh in their memories, and remains unanalyzed, an ultra-conservative surplus policy is likely to remain in the ascendant. Analysis of the 1921 deficits, though, reveals that the true cause of the deficits was not excessive dividend disbursements but excessive increases of capitalization, the burden of which was too great for these corporations in a year of marked depression.

Out of the 144 important corporations usually taken as a standard for comparison, seven had increased their capitalization by 1.03 billions in the war period from 1914 to 1921. The other 137 companies had increased their capitalization by only 1.13 billions, or little more than the seven corporations. These seven corporations showed deficits in 1921 of 163 millions or more than 30% of all deficits. In other words, the average deficit of the 137 companies bore a smaller ratio to surplus than has commonly been conceived; the average was brought up by the seven great companies, of which six reported great deficits. When it is remembered that the increases in capital liability here reported had not included stock dividends, it is clear that the real cause of trouble was the need for dividend payments on excessive capitalization, and not dividend payments in and of themselves.

It is noteworthy that in the period preceding the deflation of 1921 (from 1914 on) we witnessed the greatest expansion of share capital recorded in history, and mostly on the basis of inflated price and war-time earnings. Now that nearly all of the companies have reversed their war-time history, and have proceeded at a fairly steady pace, what comparison can there be between the deflation crisis of 1921 and any situation that will emerge after a period of saner finance? Another significant factor is that the deficits reported for 1921 were practically equal to the net additions to surplus made in 1920 (after large dividend payments) so that at the worst, one year's allocation to surplus after dividends took care of the poorest year for earnings that this country has seen since the Cleveland administration.

To invoke the ghost of 1921 is to misunderstand what happened in that year. The losses of that year do not relate to any thing in the present situation, or in any situation that can reasonably be anticipated.

It does not follow from the considerations in the article that corporations have not been generous. General Electric has disbursed Electric Bond and Share holdings, for example, and, all along, stock dividends have been declared in ample measure. But cash dividends remain the investors' *sine qua non*, and are central for any discussion of the policy of a corporation to its investors. The conclusion is inescapable. When all the ifs, buts and exceptions have been called out, and the company's side adequately represented, it is still true that there is owing the investor large amounts of cash by corporations following a too closely guarded surplus policy. The fall of 1926 and 1927 will probably see a sharp reaction in favor of the shareholder. Even a moderate business recession should not influence the companies against so sane and constructive a change in policy.



Must We Turn To Free Trade To Assure Continued Prosperity?

Possibilities of New Tariff Policy for United States

By IRVING FISHER

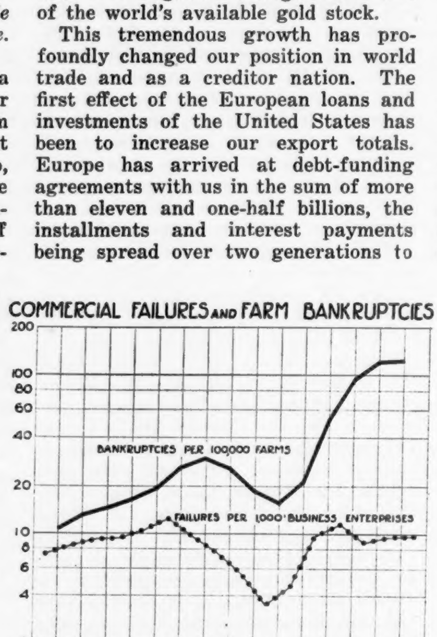
Irving Fisher needs no introduction to readers of this publication or the general public. His reputation as an economist is world-wide. His remarkable views on tariff protection in this country as described in this exclusive article are worth the serious attention of bankers, business men and investors for, if his thesis holds good, some important changes in the economic life of the nation are bound to take place.

SECRETARY Mellon has struck a new note. In their concern over the defeat of the major Farm Relief bills preceding the adjournment of Congress, Senator Gooding of Idaho, stalwart exponent of the protective tariff principle, declared that the farmers were ready to "tear down the tariff wall and throw it into the sea." Senator Cummins, commenting on Mr. Mellon's denunciation of the McNary-Haugen bill, said that if the measure were lost—as it was lost—on the grounds urged by the Secretary of the Treasury, the "whole policy of protection is doomed to absolute extinction."

While we may discount somewhat these sweeping assertions, the advocacy by Secretary Mellon, and inferentially by President Coolidge, of non-interference with world prices in the domestic market for the basic products of agriculture seems to indicate a historic change.

It is not, primarily, so much a change of party view as of the attitude of American business toward Europe. In addition to our official war loans to Europe of more than ten billions, in large part cancelled by the easy terms of payment, our private loans to European states since 1917, have approximated two billions, and to other countries seven billions more. As compared with 1913, when our exports to European countries totaled $2.484-000,000, they have doubled, amounting last year to $4,909,-000,000, and for the first four months of 1926 to $1,513,000,000. Merchandise imports have increased from $1,793,000,000 in 1913 to $4,228,-000,000 in 1925, and $1,646,000,000 for the first four months this year. In addition, the United States has imported $2,197,000,000 of gold since 1913 through April, 1926, constituting with our original holdings about half of the world's available gold stock.

This tremendous growth has profoundly changed our position in world trade and as a creditor nation. The first effect of the European loans and investments of the United States has been to increase our export totals. Europe has arrived at debt-funding agreements with us in the sum of more than eleven and one-half billions, the installments and interest payments being spread over two generations to come. The payments on these debts and on the immense European loans which private investors in the United States have absorbed, as well as the interest and dividends on their business investments in Europe—even though these should be reinvested abroad for a considerable time—must ultimately be rendered in goods which we shall import. Already we are entering the stage of maturity as a world creditor, with imports exceeding exports.



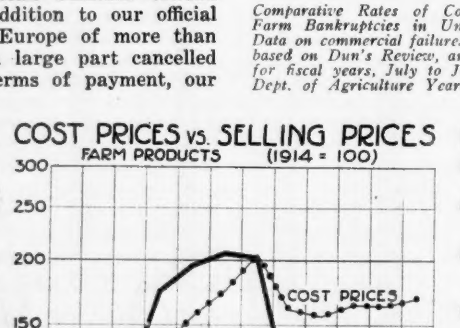
Comparative Rates of Commercial Failures and Farm Bankruptcies in United States, 1910-1925: Data on commercial failures are for calendar years, based on Dun's Review, and on farm failures are for fiscal years, July to June, as given in U. S. Dept. of Agriculture Yearbooks.

In coming years Europe, the borrower, must continue to export to the United States, lender, more than the trans-Atlantic states import from us. Goods in payment of debts and industrial yields of American investments abroad must be added to the sum total of goods for which we exchange our aggregate of merchandise exports. Like Great Britain, the United States has not only become a lending nation, but we must make extended preparations for this regular yearly excess of imports over exports in payment for the moneys we have invested in Europe.

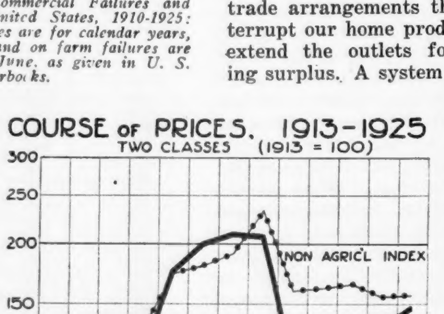
Can this mean that the United States will likewise follow Great Britain into free trade?

Not quite so fast as its need, for it has grown; but eventually it probably will.

Signs of this change toward freer trade appeared as far back as the administration of President McKinley. On the day of his assassination, in the first year of this century, Mr. McKinley declared: "By sensible trade arrangements that will not interrupt our home production we shall extend the outlets for our increasing surplus. A system which provides a mutual exchange of commodities is manifestly essential to the continued and healthful growth of our export trade. We must not repose in fancied security that we can forever sell everything and buy little or nothing. If such a thing were possible it would not be best for us nor for those with



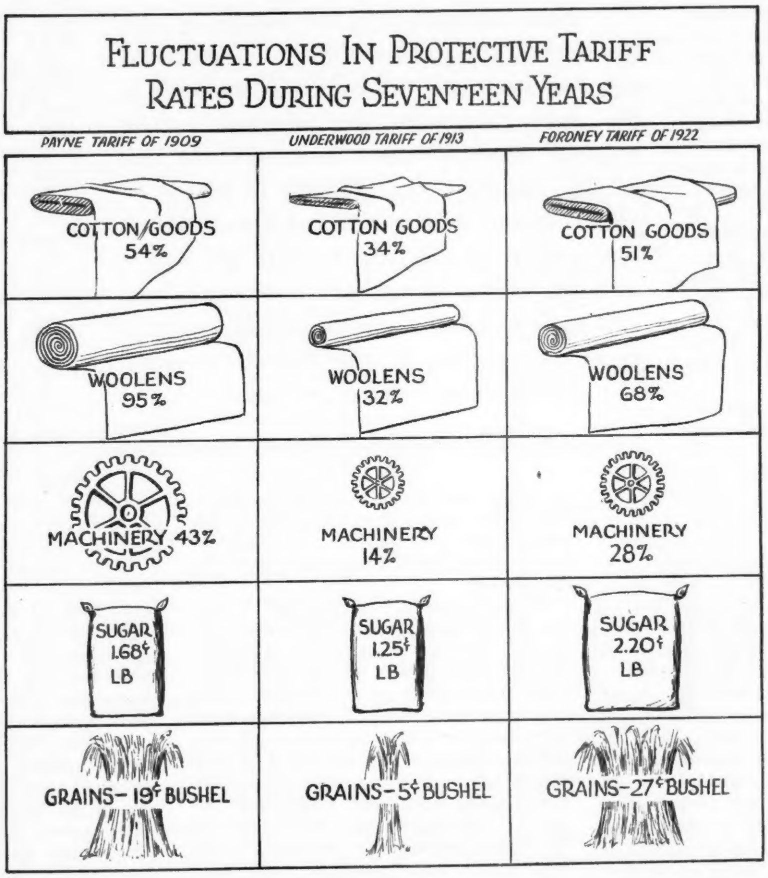
Cost Prices and Selling Prices: Costs include prices of farm expenses and living expenses of farm families (Nat. Ind. Conf. Board). Farm prices are prices received by farmers for 30 representative products (Dept. of Agriculture index).



Course of Prices: "Non-Agricultural" Index is the U. S. Bureau Labor Statistics index of wholesale prices of 265 non-agricultural products. "Farm prices" is the Dept. of Agriculture index of prices paid to farmers for 30 important products.

whom we deal. We should take from our customers such of their products as we can without harm to our industries and labor. Reciprocity is the natural outgrowth of our wonderful industrial development under the domestic policy now firmly established. . . . The period of exclusiveness is past. The expansion of our trade and commerce is the pressing problem. . . . Reciprocity treaties are in harmony with the spirit of the times; measures of retaliation are not."

During the administration of President Taft this principle would have been successfully applied with respect to Canada, but for a wave of unreasoning prejudice against the United States. The period of tariffs written by their beneficiaries, representatives of special interests against the common welfare of consumers and American business as a whole, was extended until the war, with a brief interval of lower schedules under the Underwood revision which military exigencies largely nullified. Then followed a revision upward on a refluent wave of prejudice against Europe, sponsored by the nameless fears of our isolationists. The tariff walls rose higher.



But now is witnessed a renewed championship by a Republican administration of the American consumer against the special interests of a great class; a protest, that is through an officer of the President's cabinet, that the provisions of the Farm Relief bill would "increase the cost of living to every consumer of the five basic agricultural commodities in this country." To be the more explicit, Secretary Mellon pointed out in his letter on the Haugen bill that if higher prices were secured in the home market for the farmer, like treatment might logically be demanded by the textile, boot and shoe, coal and other industries under a new form of protection that would permit overcharging the American consumer and dumping abroad. The result would be to encourage more production for the higher prices, which, he said, would at the same time diminish home demand.

In vain did Senator Cummins and Representative Haugen protest that such reasoning was inconsistent with the logic of the protective tariff. So it is. That the traditional friends of protection are now uttering it is significant, not because it fights the urgency of the Fordneys and the Dingleys for high and yet higher customs barriers, but because it marks a new phase of American industry and finance, and new needs in these fields.

Our financial interests, with their immense investments abroad, are not in a position to recognize the need of an international division of labor and production. They perceive that the European peoples can produce many things better than we can or wish to—especially all sorts of handmade and semi-handmade goods. Our industrialists, on the other hand, know that they can meet and beat foreign competition in the field of large-scale, standardized production. Their industries have long outlived their infancy; their protection on this ground was put forth as a temporary expedient to help get them started, much as a patent is granted as a temporary aid in getting a new device on the market. A more insistent desire to expand markets at home and the world over is dominant with the large-scale industries, which are no longer dependent on tariffs as they are upon successful competition at low unit costs and at low prices within the reach of multitudes of consumers.

Like our farmers, all these industries have the problem of an exportable surplus. There is the automobile industry. The greatest period of prosperity has come to the Ford Company since its foreign trade began, adding to the advantages of its price-cuts in the domestic market, and many another American manufacturing company can tell the same story. With their superiority in larger and more compact organization over European industries, they are now willing to grasp the fundamental theory of reciprocal trade relations, the importance of which economists from Adam Smith down have emphasized.

They are becoming impatient of the pleas of the upward revisionists when they see that their demands concern in large measures protection for elaborately finished goods, art products, specialty products, and for handicrafts. Our prosperity is not compatible with keeping millions employed by lacemakers, embroiderers, manufacturers of penknives, of glass and chinaware, of fabrics that require ornate touches by hand, of art objects, or of the catalogue of goods made on specialized machines that differ from the standard types.

All these petty and indivdual industries, wherein for centuries European workers have maintained traditions of artisanship or of artistry with hand labor, we have the best business reasons for relinquishing to them. They can produce the goods of these crafts better. By being allowed to do so and to export them freely to us they can best pay their debts to the United States and to its investors, and get wherewithal to buy our exports.

American workmen freed from industries of this category will more and more find their way into the industries which our manufacturers find it worth while to expand with higher forms of organization, with the molds, patterns and machines capable of enormous output for the whole world—motor cars, sewing machines, reapers and binders, building and railroad steel, coal, oil, and foodstuffs raised by tremendous marketing organizations. And these workers will be employed at the same high wages as they now enjoy—quite possibly, even, at higher wages.

It has thus dawned upon the gen-

(*Please turn to page* 625)

Industrial New England Needs New Vitality

Some of the Factors Which Are Affecting New England's Industrial Life—What Every Investor Should Know

By LELAND M. ALDRICH

THERE is too much "third generation" in New England, says the author of this article. New England thinks too much in terms of the past. Its industrial methods in too many instances are obsolete. New England is not keeping pace with the rest of the country. Yet, it ought to be out in front. If you are a resident of New England, you will read this article with particular interest. Even if not, as an investor, you will want to know the real situation so as to know which types of New England's securities are sound and which are not.

ALMOST every section of the country has had attention in the past few years except New England and yet New England probably needs attention more than most. New England of today is not the New England of old. Many acute observers see New England slipping, slowly but surely. In that case, what of its industries, its investments? Where are conditions strong, where are they weak? It is for the purpose of describing the situation, without prejudice or preconceived notions, that the writer, long a New England resident, and intimately in touch with conditions there, has prepared this article.

New England has enjoyed the fruits of a wonderful past. It was once the home of the majority of the skilled mechanics of this country. Many of its industries held first place in the volume and quality of their products, namely, the boot and shoe factories, the textile mills, paper mills, and the makers of machine tools. Its institutions of learning are old and rank with the best in the country, as people of native birth are descended from high grade stock.

Yet today New England is facing many problems where conditions are not as favorable as they were once. Its textile industry has just passed through one of the worst readjustments in its history and the end is not yet. Nor is the shoe industry what it used to be in point of volume of the product and number of factories. Many companies have moved West. Further, some of the machine tool makers have migrated West or succumbed to competition from that section of the country. The carpet industry is getting severe competition from mills in New York and around Philadelphia. Many of its paper mills are not in the financial position they once boasted.

But the picture is not altogether black. New England banks are probably in the best condition in their history. Maine still boasts a large potato crop, Hatfield raises onions and Connecticut its tobacco. Hartford is the insurance center. Electric power companies are utilizing the natural resources to a greater extent than ever before. Many of the street railways are reviving. The New Haven road, as we know, has had a remarkable comeback. Mercantile stores are bigger and better than ever before. To many at home, there seems to be nothing really the matter.

When I consider this subject I cannot but be reminded of the recent remarks of a prominent capitalist. Among other things, he said that there were three kinds of generations. The first generation worked hard and built up a large growing business with subsequent financial success and a fine reputation. The second generation came along and kept what they inherited but didn't add much thereto. The third generation came along bragging about their past and from that time on the family tree began to decline.

Perhaps we have too much *past* to think about in New England. It seems a fact that the progeny of very successful business men often do not have qualities to place them in the same category with their illustrious parents. There are, I am afraid, too many of the "third generation" in New England.

If New England ever does fall back permanently it will be because of several fundamental conditions. These are, principally: (1) labor problems; (2) the tax situation; and (3) the lack of initiative in adopting modern methods of advertising, a weakness which is very typical of New England. Compare how New England does this with, say, Florida, California, or the Middle West.

New England has had its share of labor problems, and they are by no means solved. Let us compare labor conditions there with those of the South. New England's working populace is now composed of almost every race. Old line New England families are fast dying out. Its laboring class is highly organized in many lines.

The South, on the other hand, has its white and negro population. Its white population, either solid Southern stock or "poor whites," offer no labor problem. And the negro is no problem whatsoever due to customs which have always prevailed.

A general superintendent of a Northern knitting mill went down to inspect the Southern plant that his concern had recently started. He told me that there was no comparison in the attitude of the Southern worker with that of the Northern worker. Down there he stated that they do as they are told with "no questions asked." He seemed to think he was in another world of industry. A great many manufacturers in New England who have suffered from labor conditions look upon the manufacturer in the South with envy.

Another hindrance to progress in New England, in my opinion, is the matter of taxes, and this is particularly true in the case of Massachusetts. Our state income tax makes citizens of other states gasp in amazement when they are informed of what we have to give up from outside income. While other states carry no indebtedness and charge tolls to pay for their bridges, we have to carry large bond issues. City and local taxes are high enough. Even our poll taxes are regarded as high by people in other states. This tax situation certainly is no help in advancing New England and probably restrains others from residing here. We cannot hope to compete with a state that has no burdensome income nor inheritance taxes. Of course, the tax situation applies a great deal more to people of means.

But when all is said and done the main trouble with us in New England seems to be that we have not been wide awake enough and up-and-coming as we should have been. For instance, I

have often picked up some magazine and seen advertisements of Chambers of Commerce from other sections of the country. St. Louis says, "Ship from the center of the wheel," or something to that effect and portrays a cut showing that city to be the geographical center of national industry.

Other chambers advertise in a similar way. But I notice you seldom see many exploiting the advantages of New England. We should coin some good trade marks and use them. This section of the country is one of the garden spots of the world in summer. We should advertise for the tourist. We could say, "Spend your winters in Florida and your summers in New England." If you have anything to sell today you must tell the world how good it is because the competition is so keen that people don't have to exert themselves any to satisfy their demands but they only have to consider what is constantly pushed at them.

Another measure which, if adopted, would add materially to industrial New England would be more concentrated effort in interesting new industries and concerns to locate in this field. It has always been a question if there has been much organized effort in a big way to bring this thing about. Do we do as much to bring business to New England as the South and West do to their respective sections?

Experience has proved that other sections of the country will go so far as to build factories, donate a building site, and make all sorts of inducements to bring new enterprises to their locality. Contrast this with the statement made to me recently by a general superintendent of one of the mills of a nationally known concern whose headquarters are in New England, but which has recently purchased and is now operating two Southern mills in addition thereto. The headquarters of this concern are located in a prosperous and attractive suburb of one of our largest New England cities. Much of the activity and prosperity of this community can be directly or indirectly traced to the presence of this concern in the town. And yet, this superintendent said that he was confounded to learn that the town officials had recently passed a zoning ordinance or something of that nature which would prohibit the rebuilding of this company's factories if by chance should be destroyed. Concentrated effort is the only way to bring new business to New England and right treatment of them when we get them here to hold them.

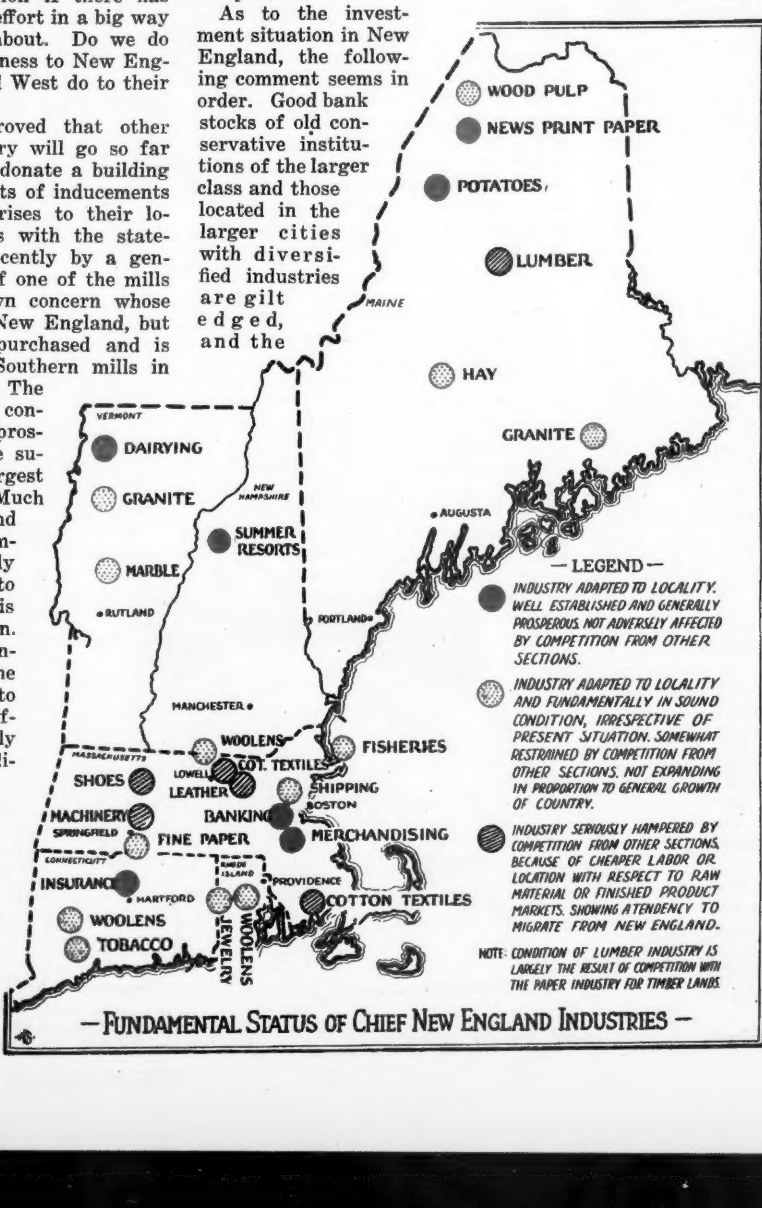
In the last analysis, the future of New England can best be solved from within. Its best sponsors are its own individuals. If things are not right, its our own fault. The world is all right. If we are living in terms of the past, the future will be neglected and decay. Conservatism is a fine attribute if not overworked. Too much of it never spells progress. Methods of yesterday may be obsolete today. Times are changing and we must change with them. I love to read of the glories of New England's past and of those irate farmers down in the Eastern part of Massachusetts who rose up in righteous wrath and drove the British invaders back to Lexington and Concord. You never can tell what a New England Yankee will do until you get him stirred up. I am one of those business men who are sufficiently optimistic to believe that there is still enough of that good old stuff smouldering in the souls of enough influential New Englanders that if it can be aroused to action, this section of the country can and will give the rest of the country a "good run for their money" in spite of the severe competition.

As to the investment situation in New England, the following comment seems in order. Good bank stocks of old conservative institutions of the larger class and those located in the larger cities with diversified industries are gilt edged, and the sagacity and reputation of our bankers should make them attractive for some time to come. Street railways are not in favor and it is doubtful if they will soon regain their former standing. Most insurance stocks of New England companies have fine records and a reputation for fair dealing with their stockholders. They are, generally speaking, good investments and should continue to be so for some time to come. New England railroad securities have come through a trying period and while many of our bonds and stocks have not regained the stability that they once enjoyed, there are good investments in this group if a certain amount of discretion is used. Our public utilities are good and outlook is favorable.

As to mill stocks and industrials of New England: In several cases many industrial stocks have come through the depression with flying colors. These mills, of course, are the ones which have cleaned house first, used up-to-date methods, and changed their products as conditions in trade made their old products obsolete. But, taken as a whole, these cases are not the general rule. If I may be permitted the observation, if I did not now own securities of New England industrial corporations I should bide my time and hold my money until I had some assurance that these companies were doing something to compete with outside industry by adopting new methods and new products and national advertising to offset the depressing trend of the moment.

New England has yet to learn that if it is to compete successfully with the rest of the hustling, bustling United States it will have to use modern measures of exploitation. Otherwise, investors and business men will be attracted to other parts of the country where progress is the keynote and where the opportunities are sufficiently within reach to make the effort worth while.

It is clear that New England cannot afford to so jeopardize its future opportunities for growth.



— FUNDAMENTAL STATUS OF CHIEF NEW ENGLAND INDUSTRIES —

The High Cost of Being a Broker

Does One Become Rich from Being a Broker Or Must One Be Rich Before Becoming a Broker?—Some Observations by One Who Has Seen the Brokerage Business from the Inside As Well As the Outside

By BARNARD POWERS

DOES the brokerage business pay? Is it an extremely profitable profession, one that makes only a moderate return on the invested capital and labor or, like farming, does the income of the average brokerage office approximate the outgo?

There are few statistics in answer to the foregoing questions. But just as there are prosperous farmers, farmers who make small profits and others who make no profits at all, so there are brokers who also fall into those three classifications.

It will probably be a difficult task, however, to convince the general public that all brokers are not rolling in wealth and that every member of the Stock Exchange does not pay an income tax on the profits of his business which makes the salary of the President of the United States seem like pin money. "As rich as a broker" has become an adage. The belief that all brokers make enormous profits is as firmly fixed as the conceptions that all mother-in-laws are meddlesome and all rich men's sons are prodigal.

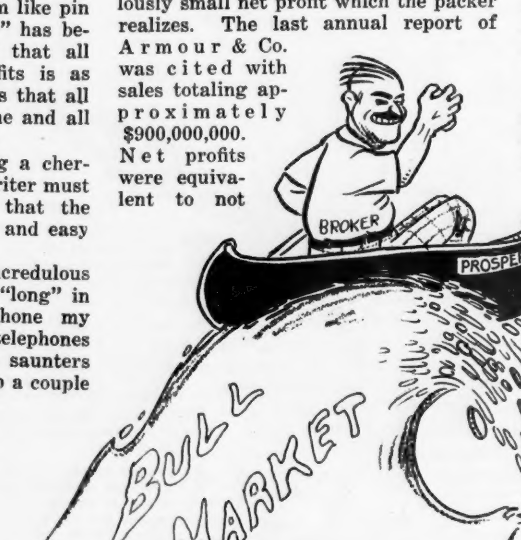
At the risk of undermining a cherished national tradition the writer must challenge the popular idea that the brokerage business is a short and easy road to riches.

"Hmph," mutters the incredulous man-in-the-street—(probably "long" in a bear market). "I telephone my broker to buy 100 Steel. He telephones to his floor man. The latter saunters over to the Steel post, holds up a couple of fingers, someone nods a head, the floor man makes a note in his book and I have bought my 100 Steel. The bill is twenty-five dollars. Pretty soft!"

And "pretty soft" indeed it would be if the above was the entire story. As a matter of fact, it is no more the whole story than the opening bar of a symphony is the whole piece.

In discussing the brokerage business the writer feels that he is in a position to speak with some degree of assurance. He has observed the brokerage business from the outside and also from the inside, having been in the business himself. The same thing is true of the brokerage business as is true of other lines of human endeavor. Some brokers make a lot of money, some a fair amount, some a little money and many no money at all. The high mortality—by that the writer does not mean failures but the large number of firms which dissolve or change their personnel each year—is ample indication that the game is far from being the sinecure which it is popularly supposed to be.

Not so long ago a short paragraph appeared in a financial newspaper calling attention to the allegedly ridiculously small net profit which the packer realizes. The last annual report of Armour & Co. was cited with sales totaling approximately $900,000,000. Net profits were equivalent to not much more than 1½c on the dollar. Let us compare that with a broker's profits.



When He Is on the Crest of the Wave

The purchase of 100 shares of U. S. Steel common at 125 costs $12,500. On the trade a broker charges $25. His gross profit, then, is 2/10ths of a cent per dollar involved. The packer's profit is 7½ times greater, but the packer's profit is *net* while the *broker's 2/10th of a cent per dollar is gross.*

"But a packer's net profit cannot be compared with a broker's profit," some reader remonstrates. "Because a broker is merely a broker while the packer is not only a buyer and a seller, but a fabricator as well. You might call him a manufacturer of meat if you wish." There is considerable merit to the contention. But, allowing for the extra work by the packer, it would seem that in comparison the broker's charge for his services are by no means excessive.

A comparison with the charges of a real estate broker would perhaps be more appropriate. In the city a real estate broker charges 2% on the amount involved in the sale of a piece of property and 5% on suburban or country realty. On a transaction involving city property selling for $12,500 the city realtor realizes $250, or ten times the stock broker's charges on a transaction involving the same amount, and the country realtor $625, or twenty-five times the stock broker's charges.

Again the writer hears a *sotto voce* from the interested reader. "But the realtor has to find his buyer or seller, which involves considerable time, effort and perhaps expense. He has no ready market or bourse, where buyers and sellers congregate such as the New York Stock Exchange."

Quite true. But neither

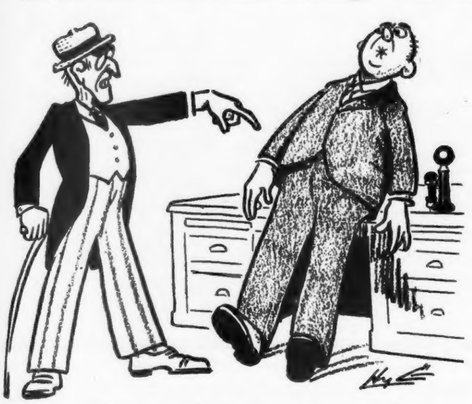
has the realtor any expense comparable to the membership and maintenance costs such as that expensive and intricate piece of economic machinery known as the New York Stock Exchange, involves.

Perhaps the expression "As rich as a broker" finds its basis in the fact that one must be comparatively rich before one can become a broker with a Stock Exchange membership.

Seats on the New York Stock Exchange at this writing are selling around $135,000. The initiation fee is $4,000, bringing the total cost to $139,000. A brokerage firm which hopes to do a moderate amount of business and without skating on thin ice in connection with its loans, should have a working capital of at least $200,000.

So it appears that to enter the brokerage business in a comparatively small way requires an initial capital of approximately $340,000. Add to that $10,000 for office equipment and incidental expense.

Annual dues of the Stock Exchange are $800. To this must be added the assessment levied for each member who dies, $10 contributions to the Christmas fund, lunch club, rental of floor phones, etc. A thousand dollars a year is probably a fair average figure for the cost of maintaining a Stock Exchange seat.



Investor:—"Do you think I ought to switch my Bungoslavia 9½s to Baluga Oil 2s, and why don't the market go up?"

Let us assume that the brokerage firm we are considering as a typical example, is conducted on a moderate scale. It has no branch offices, no expensive leased wires some of which cost as much as $50,000 a year, or the like. It must have at least two partners in addition to the floor member for in the event of illness or absence of one of the "inside" partners the other must be available to run the office. If the floor broker is absent the firm's orders can be given out to the "two dollar brokers"—now $2.50 brokers, by the way—but it is absolutely necessary for one partner to be present in the office during business hours.

Let us fix the drawing account of each of the partners at $15,000 per annum since that would seem to be a reasonable amount for three individuals who are each in a position to put up capital of more than $100,000 each.

Next in the budget of a brokerage firm comes the matter of office expense or "overhead." Overhead, of course, varies very widely, depending upon the size of the house and the scope and volume of its business. There is rent, insurance, cost of tickers, etc. There are the salaries of order clerks, bookkeepers, customers' men, stenographers, stock or bond traders, telephone operators, board boys, runners, etc. An annual overhead expense of $35,000 is extremely moderate and as a matter of fact the average overhead for member firms of the New York Stock Exchange is considerably larger.

Recapitulated the capital investment and operating expenses of our representative brokerage firm are as follows:

CAPITAL INVESTMENT	
Cost of seat	$135,000
Initiation	4,000
Office equipment, etc.	10,000
Working capital	200,000
Total	$349,000

YEAR'S OVERHEAD	
Partners' drawing account	$45,000
Office overhead	35,000
Maintenance of seat.	1,000
Interest on capital investment (6% on $349,000)	20,940
Total	$101,940

So that if our brokerage firm takes in commissions totaling approximately $102,000 per annum, the partners realize 6% on their invested capital and an additional 13% for their time, labors and risks involved. That would not be regarded as a stupendous return in most mercantile lines.

To take in commissions of $102,000 a year calls for the executions of orders totaling 408,000 shares of stock selling at $100 and below $200 per share or 510,000 shares selling at $75 and below $100 a share or 680,000 shares selling at $25 and below $50 a share.

The Faster the Ticker the Sweeter the Jazz

The year 1925 was a year of records in the brokerage business. Practically every known record of the New York Stock Exchange was shattered not only once but several times and some long-standing records were fairly pulverized. Total number of shares traded in, for instance, was 464,000,000 or more than 143 million shares over the previous high record. If all years were like 1925 the brokerage business might justify the popular belief that it is a short and easy road to wealth. But it was only a few years ago that Wall Street brokers were eking out a starvation existence. Brokers remember the lean years of 1917-18 and the terrible year 1921 as one remembers a famine.

The yearly average of shares traded in on the Stock Exchange for the last ten years is 266,573,000. Dividing this by the 1,100 members of the Stock Exchange gives a theoretical 242,339 shares per annum for each member. Fortunately for the profession, however, not all members of the Exchange are in the commission business. At the present time there are 434 New York Stock Exchange firms and 133 "outside," *i. e.*, out of the city, firms. Dividing the ten-year average by the total of 567 firms and we get an average of 470,000 shares per annum per firm. This would be about enough business

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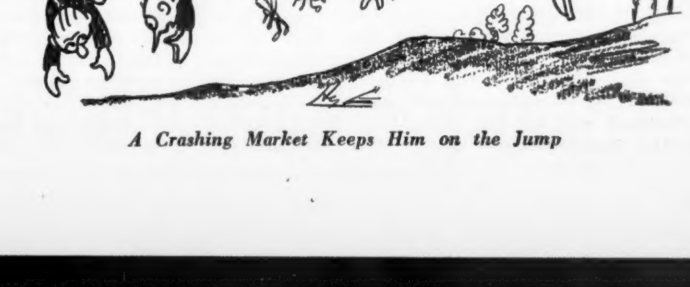

A Crashing Market Keeps Him on the Jump

The Riddle of U.S. Steel's Book Value

Is the Common Stock Worth $280 Per Share?—Assets Contrasted with Earnings—Essential Characteristics of the Steel Industry

By BENJ. GRAHAM

THE wide discrepancy between the book value and the market price ofU. S. Steel has been of perennial interest to Wall Street. On December 31st last the net assets applicable to the common stock were equivalent to $281 per share—nearly twice its current record high level. Having existed for many years, this situation has from time to time been variously interpreted. Whenever Steel assumes its intermittent market leadership—as recently—the huge book value is cited as proof that the shares have all along been grievously undervalued. On other occasions, the persistent failure of these accruing equities to find adequate market recognition has given rise to criticism of the management's policy of turning back into the property so large a portion of the annual earnings.

The probabilities are, of course, that neither of these arguments is sound. It is unlikely that the market has for years remained completely blind to the merits of its most prominent industrial; it is equally unlikely that the directors of the Steel Corporation have pursued a reinvestment policy opposed to the best interests of their stockholders. We have here, it appears, something of a riddle—and an interesting one. For it involves not only the true worth of Steel common—itself a subject of no little importance—but also the general question of asset values and their relation to investment values.

While the Stock Exchange list exhibits the widest diversity, in both directions, between market prices and book values, the underlying explanation is simple enough. In general, prosperous enterprises sell for more than their assets, and unsuccessful ones sell for less. Two chief exceptions are the railroads and the steel companies. In these groups the shares of even the strongest concerns sell below their book value. The railroad issues of course belong to a separate class, their destinies affected primarily by regulation. It is a fact worth pondering that save for a few other steel companies, U. S. Steel is practically the only prosperous industrial now selling for much less than the tangible assets behind the shares.

This unique market position of Steel common is undoubtedly the result of exceptional conditions affecting the corporation's business. The situation can best be understood by tracing its development over a period of years—on the one hand from the balance-sheet viewpoint (the physical and financial factors) and on the other hand from the income-account angle (the operating and profit factors). We have selected a ten-year period, both as a customary interval and as one well adapted to comparative study. In the appended tables are succinctly set forth: (A) The aggregate results for the past decade; (B) Their effect upon the balance-sheet; and (C) Their effect upon the earning power, to the extent indicated by a comparison of the 1925 operations with those of 1915.

TABLE I

A. Summary of U. S. Steel Corp. Financial Results 1915-1925:

		Per Share
Earned for Common Stock	$936,019,000	$184.10
Common Dividends Paid	409,181,000	80.50
Surplus Increased	$526,838,000	$103.60

B. Balance Sheet Changes; December 31, 1925 versus December 31, 1915:

Plant and Misc. Assets Increased	$264,317,000	Surplus Increased	$526,838,000
Cash and Investments Increased	197,502,000	Misc. Reserves Increased	124,268,000
Other Current Assets Increased	83,198,000		
Funded Debt Decreased	106,089,000		
	$651,106,000		$651,006,500

C. Income Account 1925 Compared with 1915:

	1915	1925	% Increase
Sales, etc. (Excl. Inter Company)	$552,700,000	$1,064,400,000	93%
Wages	$176,800,000	$456,700,000	158
Taxes	13,600,000	50,900,000	274
Depreciation	32,400,000	56,100,000	73
Other Expenses	225,400,000	396,500,000	76
Total Expenses	$448,200,000	$960,200,000	114
Balance Before Interest	$104,500,000	$104,200,000	Dec. 00.3
Interest Paid, net	28,700,000	13,600,000	Dec. 52.
Preferred Dividends	25,200,000	25,200,000	...
Balance for Common	$50,600,000	$65,400,000	+29%
Earned per Share	$9.96	$12,86	

Considering the period as a whole, the results are most satisfactory. The average annual earnings of $18.40 per share of common are excellent; the average dividend of $8 is undoubtedly adequate; and the aggregate increase in surplus of $104 per share is most impressive. The latter large figure is reinforced by 124 millions, or $24 per share, added to miscellaneous reserves, part of which are undoubtedly equivalent to surplus. As part B of Table I shows, a total of 650 millions, or $128 per share, has been poured back into the business for plant investment, added working capital, and bond retirement. On the other hand, the market price of U. S. Steel common on December 31st last was only $47 per share (or 240 millions) greater than ten years before. This figure is less than the increase in working capital alone; it is considerably below the sum that has gone into cash assets and bond retirement; it is scarcely 50% of the amount added to surplus, and less than 40% of the increase in surplus and miscellaneous reserves combined.

These figures all support the repeated claim that Steel common has been sadly undervalued. In part C of Table I, however we view the matter from another angle and we obtain a different result. Here it appears that the half billion dollars reinvested in the business have produced only fifteen millions of added profits. Despite the tremendously increased asset value of Steel common, its earnings in 1925 were hardly $3 per share greater than in 1915. Though the market price of Steel common has risen so much more slowly than the property values behind it, it has actually advanced faster than the earning power. In 1915, Steel earned $9.95 per share, or 11% on the closing price of 89; in 1925, it earned $12.86, or 9½% on the last sale at 136.

These figures, however contradictory, undoubtedly contain the clue to the discrepancy between Steel's asset value and market value. *All experienced investors know that earning power exerts a far more potent influence over stock prices than does property value.* The worth of a business is measured not by what has been put into it, but by what can be taken out of it. So much is this true that many an unprofitable company sells in the market for less than the working capital alone—less

than the liquid assets, which presumably could be readily turned into cash if the business were discontinued. Such companies, and they are by no means rare, are worth more dead than alive. Even cash assets, therefore, are not a dominant factor in market value, unless there are distinct possibilities of a special distribution therefrom. Hence Wall Street's refusal to recognize in full even the increased specie holdings of the Steel Corporation—which to the reader of the balance-sheet must appear like so much added cash in the pockets of its stockholders.

Granting that we can explain the lagging market price by the lagging profits, we are only introduced to a new problem—how to account for the very moderate growth in the Steel Corporation's earnings as compared with the enormously increased investment. But before we address ourselves to this difficult question it may be desirable to consider whether our premises are sound. Have we the right to attach any significance to the comparative prices of U. S. Steel on December 31, 1915, and December 31, 1925? Quotations fluctuate constantly, reacting often illogically to all sorts of temporary and even trivial influences. Objection may well be lodged against any attempt to base serious conclusions on a comparison of sales prices taken arbitrarily ten years apart. It may also be questioned whether the growth of Steel's earning power in the past decade can properly be measured by comparing earnings of the single years 1915 and 1925, in view of the widely varying results of the steel industry as between good and bad times.

Fortunately for our purpose, it can readily be shown that both the prices and the earnings selected are well suited to our comparative study. The price of $89 at the close of 1915 was itself a kind of average figure representing the mid-point in the upswing then under way. Ten years later, however, the price of $136 registered a high peak after a long bull market. The difference of 47 points between these two levels reflects very generously, therefore, the improvement in the market position of Steel common during the past decade. Similarly, 1925 should properly be regarded as a better business year than 1915. The latter, opening in gloom and ending in boom, showed for the whole twelve months a moderately favorable result. But 1925, with its new high record of production in steel and many other lines, was undoubtedly a year of more than average prosperity. Hence, the figures used for comparing both earning power and market value are, if anything, relatively more favorable to average present-day conditions than to those of ten years ago.

TABLE II

Comparison of Selected Items in 1925 and 1915 Reports

	% Increase 1925 over 1915
Property Account	17.7%
Capacity: Ingots	10.6
" Finished Steel	5.9
Production Finished Steel	12.8
Receipts per Ton	73.9
Total Sales	93.0
No. of Employes	30.7
Average Annual Wage	97.6
Total Pay Roll	158.3

The conclusion appears inescapable that holders of U. S. Steel common have not derived concrete benefits proportionate to the vast equities that have been poured back into the property since pre-war days. Neither the earning power, dividend rate nor market value has increased to an extent commensurate with the growth of surplus and balance-sheet strength. This threefold discrepancy is speedily reduced to a single problem—that of earnings, upon which both the dividend rate and the market price essentially depend. Is it possible to determine the causes underlying the failure of earnings to keep pace with the growth of assets? The task is not a simple one, and an exhaustive inquiry is precluded by the character of this article. Yet, even a brief study of the records may serve to shed some light on this important and perplexing question.

In the first place, in tracing the relation between reinvested profits and increased earnings, the former may usefully be divided into two parts: (A) The portion which has been used to improve the corporation's financial position; and (B) The portion devoted to expansion of operations. Division A includes funds utilized for debt retirement and increased cash assets. In Division B belongs the surplus invested in additions to plant, inventories and receivables. This segregation immediately discloses an interesting situation—

	Increase in Assets 1915 to 1925	Increase in Earnings 1925 over 1915
Class A "Financial".	$303,600,000	$15,088,000
Class B "Operating".	347,416,000	Dec. 319,000
	$651,016,000	$14,769,000

It appears that the entire increase in earnings for 1925 over 1915 was supplied by the surplus devoted to "financial" purposes, and none at all by the still greater sum reinvested in "operating" assets. The full 15 millions of larger profits are accounted for by added interest received and smaller interest paid. As may expected, this income is equal to some 5% on the new capital involved. To this point we will recur later.

The failure to increase operating income despite the huge sum added to plant investment is necessarily due to a higher expense ratio. Some comparative figures on this score are arresting, as seen in Table I (C) and Table II.

These comparisons show clearly that the lower profit margin follows primarily from a disproportionate growth in labor costs. (The heavy increase in the tax item is an additional important factor, though this burden no doubt bears just as grievously on other lines of industry.) The labor difficulty goes deeper than the increase of 98% in the average annual wages, against the rise of 74% in indicated selling prices. These relative figures are not far different from those of other businesses which have, nevertheless, succeeded in reporting large increases in net profits.

The special handicap of U. S. Steel in the matter of wages arises from three conditions. First, the abolition of the twelve-hour day in 1923, the effect of which is seen in the great relative expansion in the number of employees. This means a corresponding reduction in the output per man; or otherwise stated, that the hourly wage has increased much more than the annual wage. Secondly, the large proportion that wages bear to the total costs in the

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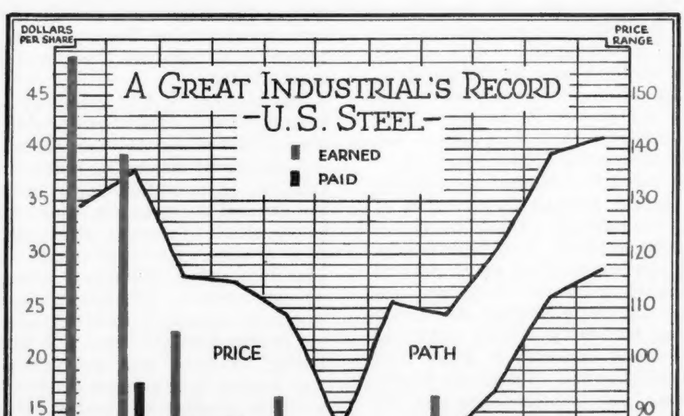

→ The Third of an Important Series of Articles ←

Problems of the Average Business— And the Remedy

Getting Into Step With New Economic Principles—High Wages One of the Keys to Prosperity—Waste in Management

By JOHN F. SHERMAN

This is the third of a series of articles by Mr. John F. Sherman, president Sherman Corp., Engineers. The first and second articles of this series appeared in the May 22nd and June 19th issues respectively. The fourth and final instalment appears in the August 14th issue.

NEW economic principles are being worked out in American business and industry. Putting them into practice means the equivalent of a peaceful economic revolution. For these new principles are directly opposed to many of the established ideas upon which business has been conducted. Concerns which have been pre-eminently successful during the past five to ten years have been the ones to get into step with these new conceptions. Or, possibly, it is the other way round, and they have developed the principles out of their new practices. Fundamental in the problems of the average business is the thorough understanding of these new principles and a readjustment of methods and habits to accord with them.

Wages and prices, during the war, went up like a kite before a strong wind. When the war ended, economists, having analyzed conditions following other great wars, felt reasonably sure that prices would come down. They did. Just what would happen in regard to wages was not so clear. However, there was a pretty general agreement that wages too must seek lower levels, but that the toboggan would be marked by great opposition from the wage earning classes who had tasted higher standards of living and would be loath to lower them.

What has happened has borne out these predictions only to a limited extent, for some entirely new principles have swum into the economic universe, principles based on facts. These have proven almost as disturbing economically as was the Copernican theory astronomically, which proved that men's ideas of the earth as the center of the universe, were all off. *One of the outstanding new principles is that low prices are the center of a new prosperity universe. And coupled with it is another, namely, that high wages are actually one of the secrets of prosperity in this new age.*

Two British engineers have recently confirmed the validity of these principles, after several months' observation of seventeen leading American industrial establishments in which the new ideas have been applied. Not high tariffs, not possession of large gold reserves nor our great natural resources nor our fertile domestic markets but the application of a theory of high wages, say these English observers*, is at the bottom of American well-being. They published their report to show England how America is doing it so that England might go and do likewise. But many American manufacturers, who have not put into practice the principles successfully used in the concerns which were included in the report, and who are inclined to regard these principles as a passing phase, will find strong corroboration of their soundness from this disinterested source.

The Ford companies are usually cited as the outstanding example of how these new principles of making and selling at a profit have been most fully developed. Ever since 1908 Ford has consistently practiced price reductions paralleled by increased production and constant economy. The economy has not taken the form of reductions in wages. On the contrary, a high wage is an integral part of this newer economy. A minimum wage of $7 per day prevails. To make possible the sound reductions in selling price, time-saving and trouble-saving devices have been introduced wherever they could effect reductions in cost. Production has increased through the utilization of mass production principles, and the reductions in cost have made possible low selling prices which have claimed larger and larger markets. A growth in output from 10,660 cars in 1908 to 1,933,419 cars in 1924 has occurred, along with continual reductions in cost from $950 per unit in 1908 to $290 per unit in 1924. Net profits have mounted, not in the form of increased unit profits but as profits on large-volume production.

The phenomenal success of the Ford company has persuaded many economists to predict that the industry of the future will be an industry of mass production and mass distribution. Proponents of this assertion claim that mass principles can be applied to virtually all lines of manufacturing; that whether the product be flivvers, locomotives, bonbons or millinery, the fundamentals of Fordization are applicable. This is a sweeping prediction. Whether or not the full machinery of mass production—mass distribution has universal applicability, it is undoubtedly true that certain of the underlying principles have been shown to be of such proven value that a primary problem of many businesses is to analyze them and search out their possible applicability.

The element of low selling price as a key to larger markets is vital. Many executives have not adequately appraised the power of their selling price and have neglected installation of means for reducing it to keep pace with competition. A manufacturer of furniture was complaining of the general business conditions which forced him to keep a heavy stock of unsold goods warehoused. They were of good quality. The real reason why they were not moving was their price. Furniture was being bought, but not this manufacturer's. His product had been made at high cost. The price necessary to cover the cost and yield a profit was not in line with the ideas and purses of buyers. Additional selling pressure was not profitable. The manufacturer was hoping that general conditions would change, bringing a sellers' market and rising prices. This hope has, in the past few years, possessed one great virtue—it has been widely shared.

Business conditions latterly have been characterized by an unusual combination: Declining prices, which have hitherto been interpreted as meaning recession, and easy money which always has been regarded as highly favorable. Businesses which make money buying and selling commodities have had a rather close time of it. Manufacturers who have used speculations in raw materials as a crutch

* The Secret of High Wages by Bertram Austin and W. Francis Lloyd.

to support inefficiencies in production no longer find themselves benefited.

High prices and prosperity are no longer Siamese twins, which die if severed. In the periods of receding prices, executives who have fitted their policies and practices to the new order have been able to show profit. They have turned the low price stumbling block into a stepping stone and their goods have moved into consumption in volume sufficient to show profit even though the profit per unit has been lessened.

When Price-Cutting is Dangerous

Profits in the days of high prices were larger on individual items. Even today it is unsound to look on price as having magical power alone. It must be considered in right relationship with the other factors in business. The new principle—the economic set-up which has produced the results viewed with amazement by the rest of the world—is that sound price reductions are part of a general policy, and that this policy begins in the production of goods. To compete with the Ford company, for example, a maker of cars in the Ford class would hang himself by merely meeting price competition without going the whole hog productionwise. Yet, it is quite common to find manufacturers in other lines who have tried, in degree, that very thing, with of course disastrous results. To hold customers and to get new accounts, they indulge in price-cutting. Orders become liabilities instead of assets. Every piece of new business means just so much more loss.

The erroneous theory is that you hold your market against the day when something will happen by which you can jack your prices up and recoup your losses. But extension of markets is not a sales problem alone. American manufacturers have been severely censured for not employing better sales methods to get foreign trade, for example, but recently European observers have predicted that a time may come, if we continue to turn out goods at lower prices than other countries can make them, when foreign buyers will come to us; will establish purchasing agencies in America because they will not be able to get along without what we have to sell! Sales problems and production problems are closely inter-related; are, in fact, only two phases of the same problem. Selling is 90% production says President Charles W. Nash of The Nash Motors Co.

To gain the advantages of a selling price attractive enough to cut a wider market swathe, quality is an important consideration. It is simple enough to reduce prices by lowering quality, using a poorer grade of material and scamping workmanship. Quality standards, however, are higher than ever before. The public has been educated by advertising to a point where the ordinary buying judgments of the rank and file are higher than ever before in history. The fellow with good goods isn't hiding that quality under a bushel, but is setting it in a high place where the buyer may compare it, test it, feel it, see it work, in comparison with other goods in the same line. To reduce quality levels is little short of suicide. Women are a powerful influence in our national buying, and the modern woman is a keen judge of values. The quality must be there, also the price. A relatively insignificant number of buyers buy regardless of price, and even high-priced merchandise is more and more using the economy appeal, that the dearest goods often are the cheapest in the long run.

Brains More Important Than Capital

A high order of management is necessary in rebuilding and realigning all the factors of a business in order to turn out goods that will meet the market requirements of price and quality and show a profit.

A gradual trend away from the old type of owner-manager has been apparent in American industry, and the growing up of a class of management specialists. The type of mind which characterizes this new order of management is fact-facing, analytical. Business management is no longer the exercise of fortuitous power, secured because of the possession of capital. Several observers have called attention recently to the increasing number of large management jobs filled by lawyers or by men with legal training. Among many examples cited are: Judge Gary, of U. S. Steel; Alvan Macauley, president of the Packard Motor Company; Amos L. Beatty, president of the Texas Company; Charles G. Dawes, Owen D. Young, chairman of the board of General Electric; C. F. Kelly, president of Anaconda; George B. Cortelyou, president, Consolidated Gas of New York; Fairfax Harrison, president, Southern Railway; Charles Donnelly, president Northern Pacific—

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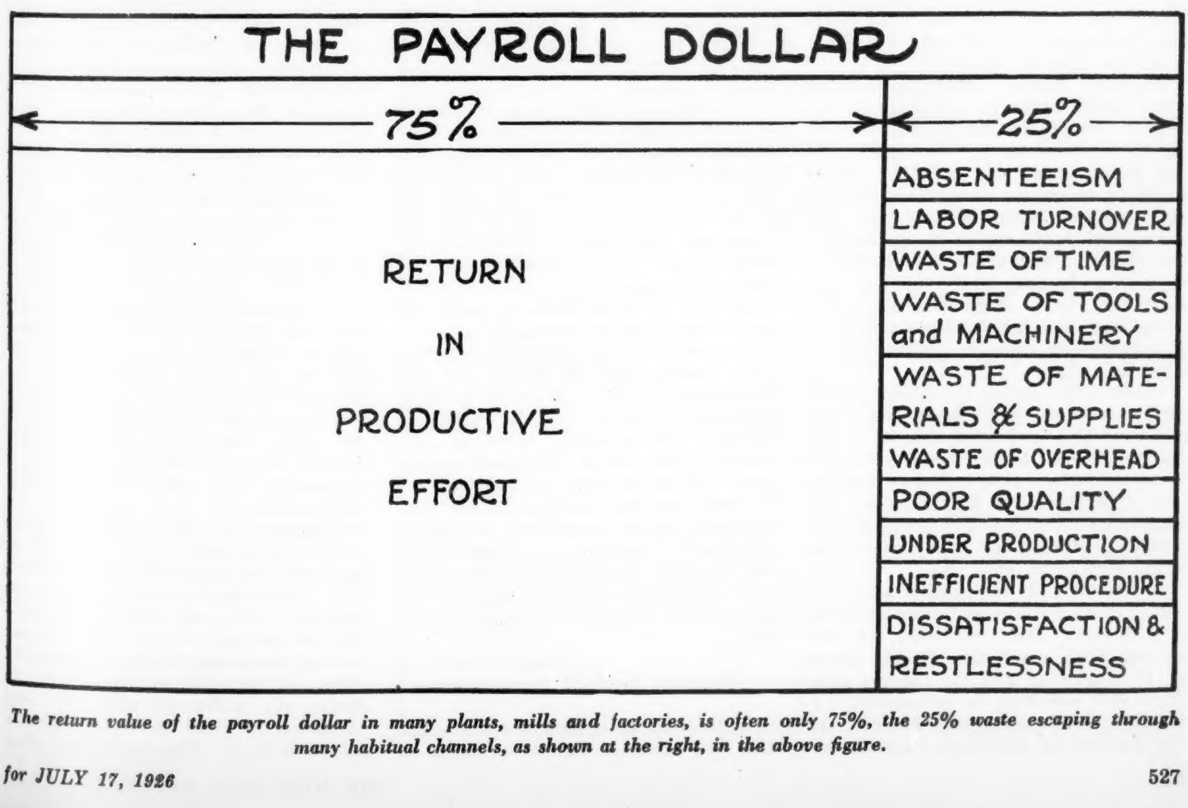
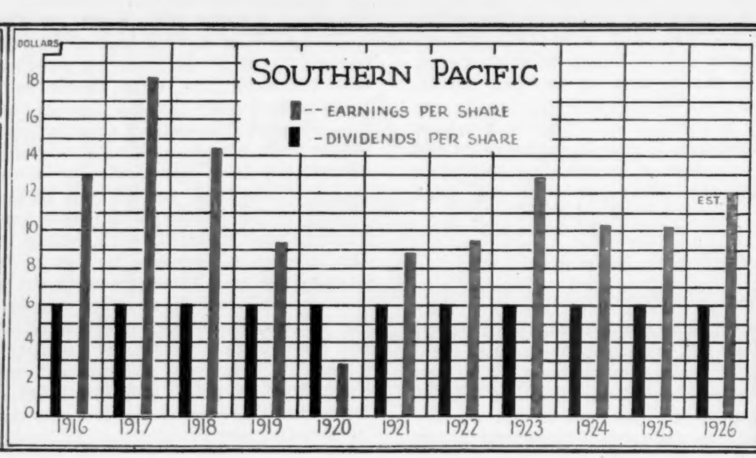


The return value of the payroll dollar in many plants, mills and factories, is often only 75%, the 25% waste escaping through many habitual channels, as shown at the right, in the above figure.



Southern Pacific—A Western Giant

Fine Long-Term Possibilities of Stock Indicated by Analysis of Assets and Earning Power

By J. A. POLLOCK, Jr.

BECAUSE of its great magnitude and peculiarly involved intercorporate relations, Southern Pacific is an excellent foil for the ancient and honorable practice of searching out concealed assets. From the standpoint of size of the investment, this company with over two billions of total assets, is exceeded only by the United States Steel Corporation and is considerably larger than the American Telephone, the Pennsylvania Railroad and about twice the size of Atchison.

Southern Pacific, operating directly some 13,220 miles of rail lines is the largest road from standpoint of mileage as well as assets. In addition, it has a sole ownership in other steam railways operating 1,422 miles, electric railways in California operating 900 miles, and half ownership in another 740 miles of steam railway, giving it an interest in some 16,282 miles of rail. Southern Pacific Steamship Lines operate, besides other marine equipment, 23 ocean-going steamers over routes of 3,825 miles.

Other fully owned subsidiaries are: land companies controlling 10,000,000 acres of land and town lots in Texas and California; lumber companies with large manufacturing capacity owning over 23,000 acres of timber lands; coal companies owning 22,000 acres of coal lands, producing oil companies, terminal companies, etc., etc.

It is difficult to realize that the owner of all these subsidiaries was once a subsidiary itself, although its connection with the Union Pacific under E. H. Harriman and the famous anti-trust suit resulting in subsequent dissolution, is of course, well known. An odd feature of Southern Pacific's history is the fact that its subsidiary, the Central Pacific, which the government sought to have segregated under the same anti-trust laws and which was returned by the Interstate Commerce Commission under authority of the Transportation Act, was really the precursor and parent of the present owner. Incorporated in 1884 as one of the earliest holding companies, Southern Pacific now in its fortieth year of operation is typical of and has been an essential part of the "romance" of the West.

It would be difficult in much longer space to consider adequately all the company's assets, but a brief classification and consideration thereof is necessary to an approximation of the value of the stock. The Southern Pacific Company owns directly less than 600 miles of line. The "system" mileage is made up of some thirty odd subsidiary roads, all of whose stock is owned by the Southern Pacific Company, some of the properties being leased in addition. This combination is known as the Transportation System and is what is commonly meant by the title "Southern Pacific." In addition, there is controlled solely-owned "affiliated companies," 35 in number in 1925. whose earnings are not included in the consolidated income account of the Southern Pacific Company and Transportation System Companies. These affiliated companies carry on most of the non-carrier activities of the corporation.

Southern Pacific's Investments

In the last two years, Southern Pacific has taken a number of steps to simplify its consolidated statement, along the line of eliminating intercorporate and offsetting accounts. Nevertheless, the peculiar practice of carrying in the combined balance sheet both the physical assets of the "transportation companies" and their stocks and bonds, held by Southern Pacific, is followed. This constitutes, of course, a duplication of assets, but is offset on the liability side by showing the same funded debt and capitalization as outstanding; the essential difference being that these securities are listed as liabilities in their par amount, and as assets at a cost figure well below par. Investments also include securities of affiliated companies and advances thereto, although the latter are in part offset by "other unadjusted credits" account, i. e., held in suspense. Physical assets of latter class of company are not taken up. What proportion of the investment account is represented by transportation company and affiliated company securities owned by Southern Pacific is not shown, although in toto about $800,000,000 par value of securities are carried at about $550,000,000. Obviously, however, in taking up the surplus account of the "transportation" companies, their securities have been taken at par.

In short, all other investments in stocks, bonds and notes would seem to be carried in reality at about $136,000,000. These investments include bonds and notes of a par value of $105,000,000, so that with a few miscellaneous stocks, there need only be established about $20,000,000 as the equity in stocks of "affiliated" companies and companies in which the corporation has a joint interest. The actual book value

of Southern Pacific's equity in these companies was on December 31, 1925, approximately $105,000,000 and $25,000,000, respectively.

The balance sheet of "affiliated" companies indicates a greater value than this, however. Prior to 1925 these companies had been charged interest on open accounts representing advances from the parent company, only earned interest being taken into the latter's income account and unearned interest held in suspense. One of the recent simplifications in accounting was to eliminate this interest and to show instead the earnings of "affiliated" companies as an addition to "transportation system" income. Accordingly, about $80,000,000 of accumulated interest "in suspense" on the parent company's books would appear to have been eliminated, only about $20,000,000, of which, however, would appear to have been "forgiven" on the subsidiaries' own books, the Pacific Electric Railway benefiting chiefly and the Southern Pacific Railway of Mexico constituting the most notable exception.

Thus, present advances of the Southern Pacific to these particular subsidiaries, would seem to constitute a liability of approximately $190,000,000 on their books and to be carried as an actual asset at about $40,000,000 by the parent company, a further equity to the owner of $150,000,000. Substituting book for "cost" values we would add about $260,000,000 to the Southern Pacific and transportation system $413,000,000 surplus, *raising the indicated value of the former's stock from* $210 *to* $280 *a share.* No road was originally more overvalued than the Central Pacific in its early days. Railroad accounting practices have undergone a distinct change toward conservatism. The "water" has grown pretty rich.

Actually, of course, many of these assets which are still of a virgin nature and in young and rapidly developing territory cannot be valued at all, the problem being essentially of future determination. Thus the Southern Pacific Land Company in segregating certain oil lands in 1921, which were sold to the parent company's stockholders in the form of Pacific Oil stock at $15, took up $26,000,000 on its books. The segrated properties are currently valued at over $250,000,000. The plain inference is, nothwithstanding, that Southern Pacific shares are worth all of the $210 claimed in the balance sheet and that the future will probably afford opportunities to stockholders comparable to the Pacific Oil distribution. Those that were wise enough to keep this stock have already seen an advantage of about $70 a share.

A possibility along these lines is in the Southern Pacific of Mexico in which the company has a capital investment of over $45,000,000, and including unpaid interest of over $115,000,000. Until recently, this venture looked a good deal like a total loss. Under more stabilized conditions and upon settlement of certain claims with the Mexican government, the parent company undertook to complete the 103 mile connection with the National Railways of Mexico, whereby entrance to Mexico City is gained. A very substantial earning power for this subsidiary at some future time is not an illogical expectation.

A feature of Southern Pacific's tremendous development in the last 40 years, whereby rail mileage has tripled and business and revenues increased tenfold, not to mention the growth of capital assets, has been the extent to which earnings have been made to contribute. Prior to 1906 no dividends were paid and all earnings actually reinvested in the property. Subsequently, all earnings above dividends have been reinvested. Up to December 31, 1917, when *invested* surplus stood at $250,000,000, 54 cents of each dollar of earnings had been returned to the property against 46 cents paid out in dividends. Since 1917 and including Federal control years, dividends have totaled about 174 millions and surplus earnings about 146 millions.

In the last eight years (or since 1917) 290 millions have been expended upon additions, betterments and extensions, exclusive of the recent purchases of the El Paso and Southwestern and the San Antonio and Aransas Pass. In addition, Southern Pacific and Union Pacific expended $37,000,000 for equipment, not included above, for their jointly owned subsidiary, the Pacific Fruit Express. In the same period, 117 millions of debt, exclusive of above mentioned companies, has been issued or assumed and 118.5 millions retired, 71.5 millions by conversion into stock and 47 millions by purchase. In other words, about 310 millions of improvement were made and a slight reduction in debt, with issue of 71.5 millions additional stock, balance coming from earnings, depreciation and the $26,000,000 realized from Pacific Oil. Acquisition of the El Paso and the San Antonio & Aransas Pass increased debt by 60 millions and capital stock by 28 millions, but added 100 millions to road and equipment account.

Recent work in addition to that on the Mexican lines has included completing the 108 mile Natron cut-off and other extensions in Oregon. The "El Paso" and "San Antonio" acquisitions will be strengthened and filled in. Moreover, the company in 1924 entered into agreements with the Western Pacific which virtually converts the parallel Central Pacific into a double track line.

The Southern Pacific system extends from Portland, Oregon, south along the Pacific Coast to the southern boundary of California, thence eastward through Arizona and New Mexico to Galveston and New Orleans. By virtue of its steamship lines operating between these ports and New York, the company is the only true transcontinental carrier. The 1,200 mile Southern Pacific of Mexico in conjunction with the regular route through California to Portland, make it the largest north and south road on the continent. Other important extensions are the Central Pacific-Western Pacific from San Francisco and Ogden connecting with the Union Pacific and Denver & Rio Grande Western, and the El Paso, connecting with

(*Please turn to page* 611)

Southern Pacific—A Western Giant

Earning Record

Year	Net Income	Dividends	Surplus	Per Share Earnings
1915	$28,154,431	$16,354,000	$15,800,000	10.32
1916	35,422,514	16,360,632	19,061,882	12.99
1917	49,129,417	16,369,400	32,760,017	18.01
1918	28,684,916	16,404,509	12,280,407	10.49
1919	31,548,606	17,478,459	14,070,147	10.83
1920	32,070,274	18,209,281	13,860,993	10.56
1921	30,618,778	20,639,196	9,979,582	8.90
1922	32,600,150	20,662,854	11,937,296	9.47
1923	44,552,482	20,662,854	23,889,628	12.94
1924	35,419,903	20,943,094	14,476,809	*10.15 (11.60)**
1925	35,657,410	22,609,650	13,047,760	*9.57 (10.18)**

*Exclusive of earnings of solely controlled affiliated companies and interest on open account with same. **Including earnings of solely controlled affiliated companies.

Development of Southern Pacific System

Balance Sheet	Dec. 31, 1925	Dec. 31, 1916	Increase
Road and Equipment	$1,341,287,000	$951,830,000	$389,457,000
Other Investments*	228,095,000	194,370,000	33,725,000
Total	$1,569,382,000	$1,146,200,000	$423,182,000
Funded Debt	633,395,000	571,620,000	61,775,000
Capital Stock	372,381,000	272,823,000	99,558,000
Total	$1,005,776,000	$844,443,000	$161,333,000
Working Capital	67,017,000	31,960,000	35,057,000
Depreciation Reserve	88,459,000	38,178,000	49,499,000
Surplus	419,149,000	210,277,000	208,872,000

*Approximate net figure—less "other unadjusted credits."

Income Account	Calendar Year 1925	Calendar Year 1915	Increase
Gross Revenues	$293,075,000	$163,427,000	79.3%
Net Operating Income	50,314,000	51,437,000	**2.2%
Other Income	12,299,000	11,325,000	8.6%
Charges	26,956,000	27,340,000	**1.4%
Net Income	35,657,000	35,423,000	0.7%
Mileage Operated	12,950	11,000	17.7%

**Decrease.

Three Per Cent Bonds—Relics or Forerunners?

Lower Interest Rates May Make 3% Bonds Familiar Once More—No Early Maturities Among These Issues

By LORING DANA, JR.

DURING the high interest epoch that resulted from the post-war inflation a three per cent coupon bond was looked upon as little better than an archeological relic of a period that would never again be seen. With the highest corporation credit at about six per cent, and with pretty good offerings on an eight per cent basis, three per cent bonds came pretty close to being ridiculous.

However, those who accumulated such securities naturally reaped a large reward. As late as 1924, *Kansas City Southern* 3s sold for 67, *Northern Pacific* 3s at 56, and, generally, such low coupon bonds ruled at from six to nine points under quotations now prevailing. The differences in yield can well be imagined.

With the general upward valuation of bonds, the three per centers also advanced until today they are comparable on the basis of yield to maturity with the average bonds of their class. But there is one notable difference, and that is that current income from such bonds is quite distinctly lower than that of issues of similar quality. Naturally, any bond selling far below par will show a greater spread between current income and yield to maturity than will any bond selling near par. In the nature of the case, low coupon rate bonds must sell at a considerable discount, and bringing the yield to maturity into conformity with the market means a more than ordinary reduction in the rate of current return. Only on the more distant maturities such as the *Louisville and Nashville, S. E. & St. L.* 2nd 3s of 1980 or the *Northern Pacific Gen. Lien* 3s of 2047 does the remoteness of repayment date bring the 3% issues into line with their higher coupon associates, with reference to current income.

From the Speculative Viewpoint

The low current income to be derived from these three per cent bonds indicates that they are bought primarily as speculations on the future of interest rates. In other words, it is the belief of purchasers that average yields to maturity will sink below the four per cent level on high grade corporation bonds. On the 1946-50-51 maturities, such speculation would naturally be most significant as the advance in price as maturity nears will begin to evidence itself in several years. The lower the interest rate the less that discount on low coupon bonds resulting from their distance from maturity. It is this factor, which would result from an anticipated lower interest rate, that would make the earlier maturities the more logical purchase. To see how many possibilities such a speculation may have it is necessary to examine into the theory of bond prices.

Bonds are fixed-income bearing securities with a definite maturity (Serial bonds included). When the rate of interest is six per cent, a bond is the equivalent of a deferred sixteen-year purchase of income. When a bond is sold at five per cent, it is the equivalent of a deferred twenty-year purchase of income.

The price of bonds includes two factors. First, the purchase of an annuity for so many years, and second, a repayment at maturity, which enables the purchaser to command further annuities to infinity. The latter feature, however, being common to all bonds, at all rates of interest, may as well be ruled out.

The first factor has an important market bearing. For when interest rates of six per cent prevail, a bond maturing in twenty-five years runs nine years more than a sixteen-year purchase of income. If on the other hand the prevailing rate of interest is at about three per cent, the purchase

All Listed Bonds with a Three Per Cent Coupon
(Non-callable)

Bond	Maturity	Legal for Trust Funds	Outstanding (Millions)	Prior Liens	Times Interest Earned	Recent Price	Current Income	Yield to Maturity
Kansas City Southern 1st 3s.....	1950	....	30	....	2.07	73½	4.08%	4.87%
Illinois Central, Litchfield Div., 1st 3s	1951	N. Y., Mass., Conn.	3.2	....	2.39	75¼	3.99	4.69
Illinois Central, Omaha Div., 1st 3s	1951	Mass., Conn.	5.0	....	2.39	73¾	4.07	4.80
Illinois Central, St. Louis Div. & Term., 1st 3s (A)	1951	N. Y., Mass., Conn.	5.0	0.8	2.39	74	4.05	4.78
Louisville & Nashville, S. E. & St. L. Div., 2nd 3s............	1980	....	3.0	3.5	2.31	66¼	4.53	4.66
Northern Pacific, Gen. Lien 3s, (A)	2047	N. Y., Mass., Conn.	54.6	108.9C	2.21	65¾	4.58	4.60
Georgia Midland, 1st 3s (B)	1946	....	1.6	....	2.56B	72	4.17	5.28
Chicago & Alton (Old Company), Ref. 3s	1949	....	45.0	....	1.01	70¼	5.26	....

A—$500 denominations. B—Interest gtd. by Southern Ry., lessee. C—Junior only to 4s of 1997.

of a bond enjoying a maturity twenty-five years distant, returns principal sooner than a thirty-three-year purchase of income.

Compound interest has been disregarded for the sake of simplicity of illustration. From this illustration, it follows that as interest rates decline and low coupon bonds advance, those enjoying the nearer maturities will advance out of proportion to those enjoying the further maturities. On this basis alone, *Kansas City Southern* 3s, *Georgia Midland* 3s and the three *Illinois Central* divisional bonds featured in the table, constitute special types of speculation in the interest rate. It is a minute field for calculation, and has attracted actuaries and statisticians rather than the average investor.

Are Three Per Cents Attractive?

The important question is not whether the reasoning here is sound, but whether the actuaries and statisticians who have bid such bonds to bring in a low current income have not paid too dearly for their anticipations. It must be remembered in this connection that a sacrifice of current income costs money. Current income of 4.05% on a low coupon bond as opposed to current income of 4.25% on a 4% coupon of similar quality and maturity, imposes a differential cost of .20% per annum on the purchaser. Does the possibility of the second factor of progressively lessened discount as maturity approaches compensate for present differential current income cost as compounded? While the question is technical, the answer seems to be that right now the 3%, 3½% and 4% coupon bonds are running nip and tuck with reference to such advantages. The differences between the groups appear to have been carefully calculated.

For the larger question as to whether any long distance decline in interest rates are likely to be so near as to render such three per cent bonds exceptionally attractive it will be needful to examine the price of bonds when low interest rates have previously prevailed. Obviously there was a time when three per cent bonds could be sold to investors. Such gilt-edged securities are reminiscent of the period when British Consols sold down to below a 2½% annuity basis. Have we any reason to anticipate that such a tendency will evidence itself soon, thus making three per cent bonds cumulatively attractive, or will this tendency be long delayed, thus rendering the cost of their low current income such as to make it advisable to defer purchases?

Since all of these bonds are listed, it pays to consider the present average yield to maturity of listed railroad bonds of the highest class. These long-term obligations average about 4.60%. This is the average rate for all coupons, including such bonds as are held down in price by fear of refunding at a lower coupon rate. Weighting such bonds we can safely place the average at no less than 4.65%. On the "cream"

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Bond Buyer's Guide

Bonds for Income Primarily

	Amount Issue (Millions)	Prior Liens (Millions)	Times Interest Earned on all debt	Price	Current Income	Yield to maturity
GOVERNMENT ISSUES						
Argentine 6s, 1959..................(a)..	44.8	....	....	99	6.10	6.07
Dominican Rep. 5½s, 1942..........(a)..	6.7	6.4	....	97	5.65	5.85
Haiti 6s, 1952......................(b)..	15.6	....	....	98½	6.08	6.09
Panama 5½s, 1953..................(a)..	4.4	....	....	102½	5.39	5.33
RAILROAD ISSUES						
Baltimore & Ohio, Ref. 5s, 1995...(a)..	60.0	284.0	1.44	98¾	5.06	5.05
Ogdensburg & Lake Champlain 1st 4s, 1948	4.4	....	1.91	80¾	4.95	5.48
Genesee Riv., 1st 6s, 1957.......... ..	5.7	....	1.44	109½	5.48	5.35
Great Northern, Gen. 7s, 1936.....(b)..	115.0	139.8	2.75	113¼	6.18	5.25
Kan. City Sou. Ref. & Imp. 5s, '50. ..	18.0	30.0	2.07	98¾	5.07	5.10
Ky. & Ind. Term., 1st 4½s, 1961.. ..	5.1	....	X	88¾	5.05	5.20
Minn., St. P. & Sault 6½s, 1931.... ..	10.0	74.6	1.16	103	6.33	5.80
M-K-T, P. L. 5s, 1962..............(b)..	36.6	31.3	1.69	101½	4.92	4.90
Missouri Pac., 1st & Ref. 6s, 1949.(a)..	24.1	126.3	1.24	107	5.64	5.50
N. Y., O. & W., Ref. 4s, 1992..... ..	20.0	....	1.29	74	5.40	5.55
Rutland, 1st 4½s, 1941............ ..	3.5	....	1.80	92	4.89	5.25
San Antonio & Aransas Pass. 1st 4s, 1943	17.5	....	2.63	88¾	4.50	5.01
Western Pacific, 1st 5s, 1946......(b) .	27.8	....	2.26	99¼	5.04	5.07
PUBLIC UTILITIES						
Am. W. W. & Elec. Coll. 5s, 1934..(b)..	12.7	....	1.32	97¾	5.07	5.30
Commonwealth Power, 6s, 1947....(b)..	10.1	....	4.28	105½	5.68	5.55
Hudson & Manhattan, Ref. 5s, 1957.(b)..	37.5	5.6	1.98	97½	5.11	5.18
Kansas Gas & El. 1st 6s, 1952.....(a)..	14.0	....	1.71	103½	5.79	5.75
Laclede Gas, C. & R. 5½s, 1953...(b)..	17.5	10.0	1.58	103¾	5.29	5.26
New York Dock, 1st 4s, 1951......(a)..	12.5	....	2.73	85	4.70	5.07
New York Edison, 1st 6½s, 1941..(a)..	30.0	38.0	3.71	117	5.55	4.87
Ohio Pub. Ser., 1st & Ref. 7s, '47..(b)..	3.7	4.0	2.61	111¾	6.25	6.60
United Fuel Gas, 1st 6s, 1936.....(a)..	9.5	....	5.72	103⅝	5.78	5.60
Western Union, 6½s, 1936.........(a)..	15.0	20.0	11.20	112⅝	5.77	4.95
INDUSTRIALS						
Am. Smelting & Ref., 6s, 1947....(a)..	9.6	....	4.92	107½	5.60	5.42
Anaconda, 1st 6s, 1953............(a)..	105.5	16.9	1.34	104	5.76	5.71
Bethlehem Steel, P. M. 5s, 1936... ..	22.2	5.1	2.20	97¼	5.14	5.30
Central Steel, 1st 8s, 1941.........(b)..	4.5	....	4.90	121	6.61	5.85
Goodrich, B. F., Co., 1st 6½s, 1947 ....(a)..	22.7	....	5.35	106	6.13	6.04
Hershey Choc., 1st Coll. 5½s, 1940.(a)..	19.3	....	5.18	101⅜	5.40	5.36
Int. Paper, 1st 5s, 1947........... ..	6.7	....	7.26Y	95	5.29	5.39
Sinclair Pipe Line, S. F. 5s, 1942.(a)..	24.5	....	4.46	91½	5.47	5.80
So. Porto Rico, 1st Coll. 7s, 1941..(a)..	5.0	....	3.31	108	6.48	6.18
U. S. Rubber, 1st 5s, 1947.........(b)..	61.4	2.6	2.91	93¼	5.26	5.54

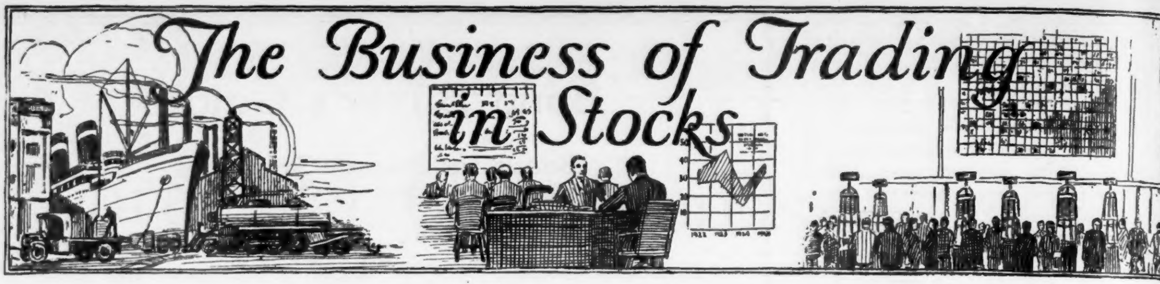
Bonds for Appreciation of Principal Primarily

	Amount Issue (Millions)	Prior Liens (Millions)	Times Interest Earned on all debt	Price	Current Income	Yield to maturity
RAILROADS						
Chicago Gt. Western, 1st 4s, 1959. ..	34.7	....	0.90	68⅝	5.82	6.25
Central New England, 1st 4s, 1961. ..	13.4	0.2	0.67	74¾	5.33	5.68
Erie, Gen. Lien 4s, 1996.......... ..	35.9	91.6	1.44	72	5.55	5.61
Int. Gt. Northern, 1st 6s, 1952....(b)..	17.2	....	1.34	105¼	5.73	5.61
Mo. Pacific, Gen. 4s, 1975..........(a)..	49.6	219.9	1.24	73½	5.45	5.88
Rock Is., Ark. & La. 1st 4½s, '34..(b)..	11.0	....	1.48	93¾	4.83	5.50
Spokane Int'nal, 1st 5s, 1955........ ..	4.2	....	3.77Z	86¾	5.76	5.96
Western Md., 1st 4s, 1952......... ..	46.5	2.3	1.18	74⅝	5.35	5.92
PUBLIC UTILITIES						
Brooklyn-Manhattan Tr., 6s, 1968..(b)..	92.7	....	1.52	97½	6.16	6.16
Indiana Nat. Gas. Ref. 5s, 1936.... ..	6.0	....	1.89	98	5.10	5.28
Manhattan Ry., Cons. 4s, 1990..... ..	40.7	....	0.86	67⅝	5.92	5.98
Market St. Ry. 1st 7s, 1940.......(a)..	12.9	....	2.38	98	7.14	7.25
Montreal Tramways, Gen. & Ref. 5s, 1955 ....(b)..	2.5	21.4	1.31	93	5.39	5.51
N. Y. & Richmond Gas, 1st 6s, 1951 ....(b)..	2.1	....	1.06	101½	5.93	5.90
INDUSTRIALS						
Ajax Rubber 1st 8s, 1936..........(b)..	2.4	....	2.23	103⅛	7.77	7.54
Col. Industrial 1st Gtd. 5s, 1934... ..	31.4	5.3	1.16	90	5.55	6.55
Consolidation Coal, 1st & Ref. 5s, 1950	21.1	8.0	2.52	81¾	6.14	6.51
Commercial Credit. Coll. 5½s, 1935.(a)..	5.0	....	2.74	93	5.91	6.50
Republic Iron & Steel, Ref. & Gen. 5½s, 1953 ....(a)..	8.9	11.2	4.48	95½	5.76	5.82
DEBENTURES						
Am. Chain, S. F. Deb. 6s, 1933....(a)..	6.6	....	6.84	101	5.94	5.80
Am. Type Founders, Deb. 6s, 1940. ..	5.0	....	....	105	5.70	5.54
Ligget & Myers, Deb. 7s, 1944.... ..	13.6	....	5.88	123	5.69	5.06
Sun Oil, Deb. 5½s, 1939...........(a)..	9.6	....	3.99C	100	5.50	5.50

Note—All bonds in $1,000 denominations, except (a) lowest denomination $500, (b) $100. Earnings are on five-year basis unless shorter basis is only one available. Where bonds are assumed, earnings of guarantor company are given.

X—Guaranteed by proprietary companies. Y—Recent earnings about $2.16. Z—Interest only guaranteed by Canadian Pacific. C—Listed N. Y. Curb market. All others on N. Y. Stock Exchange.

Note: Buff. R. & P. Con. 4½s, 1957, have risen to a quotation where they are no longer attractive. Ogdensburg & Lake Champlain, 1st 4s, 1948, have been substituted.



Part IV. The Technique of Manipulation (*Continued*)

A Series of Articles for Investors by JOHN DURAND

Opportunities for Profit

OVER a period of years, stocks decline nearly as many points as they advance; so that the trader who cannot bring himself to sell short misses about half the opportunities for profit. Although the professional trader prides himself upon his ability to trade on both sides of the market, his mental bias actually leans toward the short side. There are several good reasons for this. When prices do go down, they fall much more rapidly than when they advance in a bull market.

If you are right in your position, profits are much quicker on the short side than on the long side. Accidents, such as cataclysms of nature and other acts of God, favor the short side and so leave the trader less anxious about remaining short overnight than remaining long. Then again, brokers will usually accept smaller margins on short trades than on long, and there are no interest charges to eat into profit.

On very large and active accounts the broker can even afford to credit to the customer whatever interest may be collected from parties who loan him the stock. On the other hand, there is a bottom below which prices cannot decline, even allowing for possible assessments, whereas, theoretically, there is no limit to the possible top. The bear, in a rapidly advancing market, always has before him the bogie of a corner. He remembers when Northern Pacific climbed from 300 to 1,000; Bethlehem Steel from 30 to 1,000; and the Stutz corner, and Piggley Wiggley, and several other painful episodes in which bear pelts were nailed to the post. Of course, corners are exceedingly rare occurrences—are in fact prohibited by the Stock Exchange—and Northern Pacific and Bethlehem Steel were not real corners; but the fact remains that spires are taller than cellars are deep, so that a short seller must take care to limit his losses just as carefully as the Bull does. This is only a matter of common sense and only a tyro would run counter to this teaching.

Effect Upon Floating Supply

Where stock is carried on margin a broker is compelled by law to obtain the customer's written consent before pledging his stock as collateral for a loan, whether at a bank or through the process of loaning stock to short sellers. At the time of opening an account, it is usual for the customer to give the broker blanket permission to so pledge any stock he may subsequently carry on margin; for one could scarcely expect the broker to use all his working capital in carrying a few customers. To do so would compel the broker to charge much higher commissions to meet his heavy expenses.

But a pool will frequently make special arrangements with its brokers whereby its stock can be loaned to short sellers only at the pool manager's discretion. The reason for this becomes apparent when one considers the effect that short selling has upon the floating supply.

Suppose there are 600,000 shares of Consolidated Electric outstanding: 300,000 shares of which are held for control; 150,000 owned outright by investors; and the remaining 150,000 carried by speculators, on margin. We had reached the point in our preceding section (see last issue) where 20,000 shares of this floating supply had been tied up by calls and 100,000 had been accumulated by the bull pool, leaving an effective floating supply of only 30,000 shares. Now suppose 30,000 shares are sold short—by the pool or by outsiders.

In order to deliver this stock to the new bulls who have bought it, it is necessary to go out and borrow 30,000 shares. If the pool's brokers refuse to loan any stock that the pool is carrying it will be necessary to borrow the entire available floating supply, which may be scattered among small speculators all over the country. This would obviously be impossible and the short sellers would soon find themselves faced with such high premiums that they would be forced to bid the stock up, in their efforts to cover and get out of the impasse, paying almost any price the pool chose to demand. This would amount to a corner and immediately start an investigation by the Exchange authorities. So the pool would find it expedient to loan enough of its own stock to keep the loaning rate near normal, and avoid "squeezing" the shorts to the point of forcing them to bid up the price too violently. If the pool should offer to loan all the stock wanted by short sellers, the effect of selling 30,000 shares short would be to double the effective floating supply; for the 30,000 shares sold by the "bears" is obviously bought by "bulls" and carried as long stock, in addition to the original floating supply of 30,000 shares.

A bull pool likes to have a fair-sized short following from the time accumulation has ended up to the time it has succeeded in distributing its line; for a short interest is ever a potential source of strength. The Wall Street bear is a timid animal, and easily frightened into climbing for stock. He is usually a professional (for 95% of the public are bulls) and quick to run when the market turns a little against him in either direction. Knowing the ways of pools, he is ever fearful of being squeezed. The scattered public following on the short side is even more timid, though not so agile in cutting losses short, for it never feels quite at home among bear company.

Against the more stubborn bears the pool always holds in reserve a well nigh impregnable weapon—the power to demand the return of stock it has loaned, for the loan of stock to short sellers is a demand loan that may be called off by either side at will. When demand is made for the return of stock, the short seller must manage somehow to borrow it elsewhere, or cover his stock in the open market. When a stock becomes very scarce in the loan crowd so many shorts may be frightened into bidding for stock that the price will climb upward at terrific speed, with big fractions or points between sales. Wall Street calls this a "Bear Panic." If caught at such a time, the short seller is likely to face serious losses.

The Marking Up Stage

We left our bull pool in Consolidated Electric at the point where it had completed its accumulation of 100,000 shares, at an average price of 96. The last 50,000 was obtained under some difficulties, among which we neglected to mention that the company came out, during the process of accumulation, with an announcement that 1% extra would be distributed with the next regular dividend. The directors merely stated, by way of explanation, that the company's cash position, in their opinion, warranted such action at this time. From point Y, in our graph, where accumulation was completed, to point E, where the stock is to sell ex-dividend, only two weeks intervene. Evidently quick work must be done if our pool is to cash in its profits at the psychological moment.

Before proceeding further, it would be an interesting experiment for the reader to cover up all of the graph to the right of point D and fix his attention upon the price formation between C and D. Noting how the tops show a tendency to "dome over," let him ask himself this question: "Does the formation indicate distribution, or merely letting the public get off?" In the installment, on "Tape Reading," we shall draw attention to several points on this graph that would enable one to detect the accumulation in progress, perhaps you can reason these out now from the description we have already given of this process; but we must rest content at this point with remarking that the low on each reaction is higher than the low of the preceding reaction. The tops dome over, but the bottoms do not.

The pool manager's objective is now not only to mark the price up to a point where his purchases for pool account can be distributed at a profit, but he has also keenly in mind the prospect of making his own calls valuable. Under the conditions we have assumed this is not a difficult feat; but, in order to convey a clear conception of the process, we shall have our manipulator resort to a number of superfluous devices which are used under other conditions, although not necessarily in the order in which they are here presented. In the war bride market of 1915-16, for instance, almost no manipulation was needed to put prices up; it was quite evident to all that the huge war orders meant big profits for all corporations receiving them, and everyone was making so much money that they had to buy stocks—there were always more buyers than sellers, and stocks could go only one way, up, without resort to inside stimulation. It was said, in fact, that the public made more money in that market than the insiders, who frequently sold out too soon, only to buy back their own stocks at higher prices.

Having reduced the market to a sold-out condition, the pool manager has the price bid up sharply a few points, and then distributes stop orders among four or five brokerage houses to buy on a scale up, beginning with a fraction above the high point previously reached on the movement. This gives the impression of an outside short interest that is growing uneasy over the stock's continued strength, and greatly tempts the floor traders to go gunning for these and other stop orders that may be on the specialists' books above the market.

The manipulator may then mention to some friendly floor trader, in confidence, that he is interested in Consolidated Electric. This is real news, for the manipulator's name is one to conjure with. Floor traders are quite as eager for tips as the public, and the report is soon spread to brokers' customers that the Big Manipulator is on the job in Consolidated Electric.

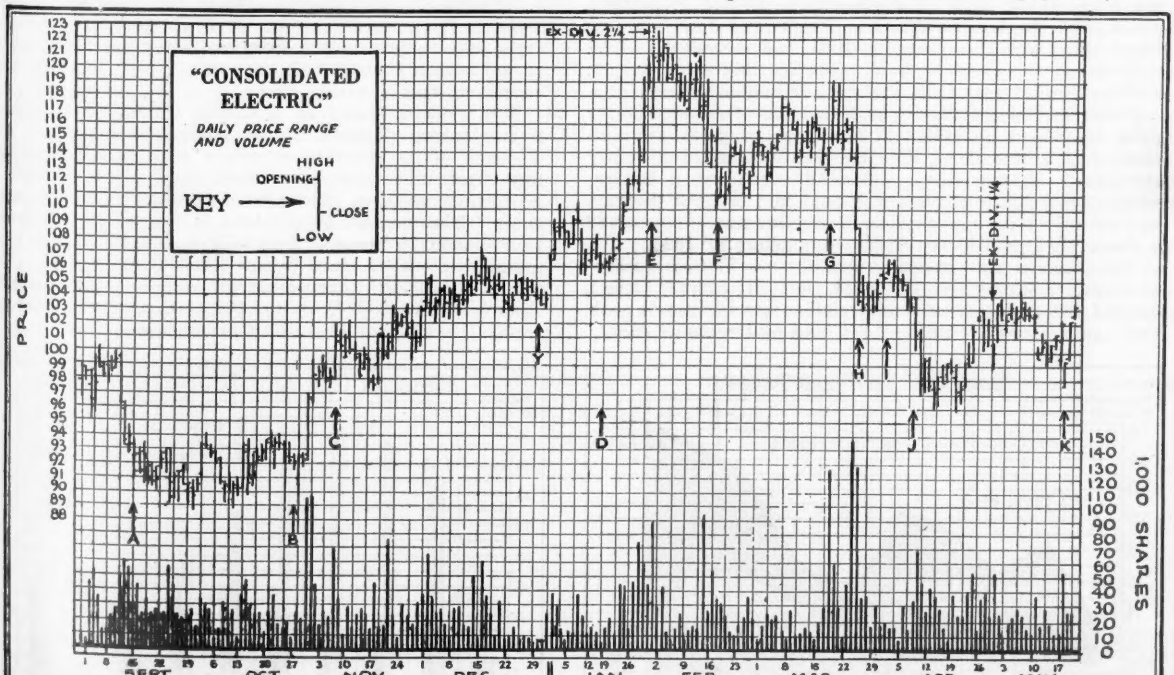
Sometimes the manipulator considers it good strategy to distribute calls above the market here and there among customer's men in the big brokerage houses, and perhaps to the specialist. It is well to have the stock talked about now, for the time will soon come when a big following will be needed. At this juncture, brokers for the pool may let a few favored customers in confidentially. This is real inside information; but the flaw here, as with most inside information, is that the customer will not be notified when the pool is ready to unload. After it is all over, and prices are down, he may learn that the pool has wound up its affairs.

All the rumors and tips, along with the stock's activity at rising prices, bring in public buying in sufficient quantity to enable the pool to feed out a little stock on the way up under the guise of short selling. If the price reacts, the manager can render fresh support to his stock by covering the short sales, and thereby acquire no stock or balance. If the price continues to advance, he can make delivery on his short contracts by taking up part of his calls, thereby taking profit on part of his own stock.

When the public interest begins to flag, the manipulator may distribute moderate scale order buying orders on the way up, among several prominent brokerage houses — preferably those that are known to act for insiders and for his own personal trades. This creates the impression of "good buying," and stimulates interest among the floor traders, with renewed activity and a further rise in the price.

As the pool actually has absorbed a

(*Please turn to page* 619)



Thumb Nail Sketches of Fifteen Attractive Common Stocks

1—Bucyrus Company

An Organization With a Remarkable Record

THOUGH but five years less than a half-century old, Bucyrus is still known only to a relatively limited circle of investors. Those who have followed the fortunes of the common shares "over-the-counter" or in the New York Curb Market, however, recognize the company as one that has made exceptional progress.

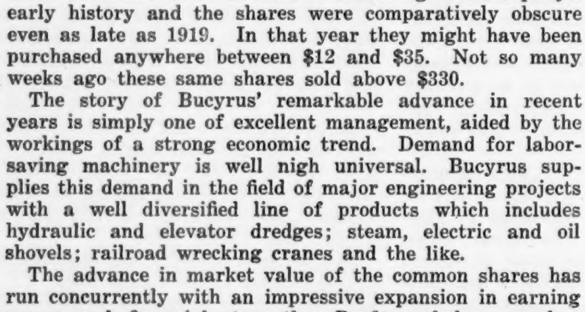
"The Bucyrus Company," originally a maker of railroad construction machinery, was born under another name—"Bucyrus Foundry & Machinery Co."—in 1881. Following reorganization fifteen years ago, the latter title was still further shortened to the present style "Bucyrus Company." Little information is available concerning the company's early history and the shares were comparatively obscure even as late as 1919. In that year they might have been purchased anywhere between $12 and $35. Not so many weeks ago these same shares sold above $330.

The story of Bucyrus' remarkable advance in recent years is simply one of excellent management, aided by the workings of a strong economic trend. Demand for labor-saving machinery is well nigh universal. Bucyrus supplies this demand in the field of major engineering projects with a well diversified line of products which includes hydraulic and elevator dredges; steam, electric and oil shovels; railroad wrecking cranes and the like.

The advance in market value of the common shares has run concurrently with an impressive expansion in earning power and financial strength. Profit and loss surplus, which stood at 3.11 millions in 1920, had increased to 5.60 millions at the close of 1925. During this same period, working capital rose from 3.82 to 5.49 million dollars.

Owing to the irregularity and low rate of earning power prior to 1916, a considerable arrearage of preferred dividends had accumulated, but this was all cleared up early last year. Subsequently, common dividends were inaugurated. Only $3.75 a share was paid in 1925, but the rate has recently been increased to $7 regular and extras of $2 a share were paid in the first two quarters of 1926.

The common will probably appeal to a limited class of spec-vestors owing to its price, but at current levels, around 226, it has receded materially from the year's peak, and again seems attractive as a long pull commitment.



2—American Car and Foundry Co.

Car Foundry Bulwarks Its Position

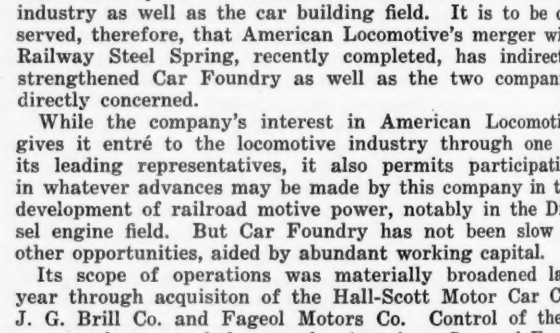
AMERICAN Car and Foundry belongs to that group of industrials—the equipment companies—whose business is intermittently prosperous and depressed. In the past year or more, depression has ruled. The equipment makers have caused their shareholders no little concern for operations have been far from profitable. Car Foundry has not been one of these for it has turned excess earnings of other years to excellent account.

It has long been known that the company owned a substantial stock interest in American Locomotive and hence was indirectly interested in the locomotive branch of the industry as well as the car building field. It is to be observed, therefore, that American Locomotive's merger with Railway Steel Spring, recently completed, has indirectly strengthened Car Foundry as well as the two companies directly concerned.

While the company's interest in American Locomotive gives it entré to the locomotive industry through one of its leading representatives, it also permits participation in whatever advances may be made by this company in the development of railroad motive power, notably in the Diesel engine field. But Car Foundry has not been slow to other opportunities, aided by abundant working capital.

Its scope of operations was materially broadened last year through acquisiton of the Hall-Scott Motor Car Co., J. G. Brill Co. and Fageol Motors Co. Control of these concerns has opened the way for American Car and Foundry's development in the growing motor bus field, and is an assurance that it will keep abreast of economic tendencies in this direction also.

It is evident, therefore, that Car Foundry has attained a dominating position in the equipment business. The diversity of its interests, moreover, should have a stabilizing effect upon earnings, which have already shown a gratifying measure of resistance to depressionary influences. The current $6 dividend is protected by a three-year dividend reserve of 10.8 million dollars which has remained untouched since it was established in 1918. *Considering the long range possibilities inherent in the greater American Car and Foundry, the common stock is an attractive holding at prevailing prices, around 99.*



3—Abitibi Power & Paper Co., Ltd.

Canadian Paper Company's Dividend Prospects

Five Year Showing

Year	Earned per Share	Paid on Common
1921	$11.07	$1.00
1922	7.25	2.00
1923	9.59	4.00
1924	10.95	4.00
1925	11.20	4.00

AMONG stocks that have not yet worn off the newness of their listing upon the New York Stock exchange, Abitibi still holds a place. Though it came to the Big Board more than a year ago, the common stock of this company does not seem to have been adequately recognized by investors, except for a brief rise to 84 last April. Rumors of a merger with Spanish River Pulp & Paper Mills were largely responsible for this flash.

Primarily, Abitibi is a paper manufacturer. As such it is one of the largest in the Dominion of Canada. The company's principal business is in newsprint. Like its better known (to American investors) contemporary, International Paper, Abitibi owns or controls valuable water power sites, though they are not nearly so extensive as International's. Nevertheless, the company is something of a public utility enterprise in its own way for it derives a fair revenue from the sale of electrical energy.

It was formed in 1914 to acquire and develop water power on the Abitibi River in the Temiskaming District of Northern Ontario. Through leases from the Provincial Government, it controls 53,000 net continuous horsepower of which some 30,000 are now being utilized. In addition, similar leases give Abitibi access to a solid block of pulpwood lands adjacent to its producing plants. These lands embrace 1 million acres. The plants, however, are favorably situated since they are tributary to a forest area of 6,000 square miles of timber lands containing a vast storehouse of spruce, poplar and other paper-making trees. This tract constitutes one of the most important virgin forests in North America.

The company's situation in respect to the market for its product is also quite favorable. The plants are well located in relation to the Middle West. Freight rates to Nebraska, Ohio, Louisiana, Texas and other states which comprise the area of distribution, are reasonable and enable Abitibi to reach its customers on the same terms as its eastern competitors. A subsidiary, the Abitibi Transportation & Navigation Co., owns 16 miles of standard gauge railroad which connects the properties at Iroquois Falls with the Temiskaming & Northern Ontario and Canadian National railroads.

How well the company has turned its advantages to account is exemplified by a consistently good earnings record. Despite the difficulties of many other paper manufacturers, Abitibi has shown a minimum balance of $7.25 a share for its 250,000 shares of common stock during the past six years. The maximum in this period was $14.71 a share while net profits were $11.07 in 1925. The common is preceded by 1 million dollars of 7% preferred and 9.63 millions bonded debt. Financial position is strong with current assets in the ratio of 2.7 to 1 of current liabilities. It is interesting to note, in this connection, that while net earnings available for common dividends have totaled $69.06 a share during the period 1919-1925, only $22.50 have been paid out.

While newsprint prices are now down to $65 a ton, consumption is steadily gaining. Abitibi is likely to make a better showing this year than last, increased production being an offset to the lower price level. *The present $4 dividend, obviously, could be raised without difficulty, a possibility that the common stock has not yet discounted at 75 a share.*

4—Youngstown Sheet & Tube Company

Steel Company Could Pay Larger Dividend

THOUGH it has less than one-seventh the annual rated ingot capacity of U. S. Steel and not half that of Bethlehem, Youngstown surpasses its great competitors in several respects. Its earnings of $12.38 a share for the common stock in 1925 compare with $12.86 for the former and $5.30 for the latter. In terms of per cent earned on total capitalization, including surplus, the company made a much better showing. In fact, no other of the all around producers approached the 6.28% figure registered by Youngstown, and only Crucible, among the leading companies, was able to overtop its earnings of 4.10% per ton of ingot capacity.

It would appear from this that Youngstown had directed its efforts at steel making along very efficient lines and that expansion in recent years had not deprived it of any material earning power nor strained its effectiveness as a profit maker.

Youngstown's earnings record is exceptionally good for a steel producer, for while it has shown the variation common to the business, the company has operated more profitably, on the whole, than many of its competitors. The notable depression year, 1921, brought a deficit and not a very large one at that, the total loss being $167,401. With this exception, profits have been shown in every one of the last thirteen years.

Despite its excellent earnings record, the company has been outstandingly conservative in the matter of dividend payments. Disbursements to common shareholders have always been well within its capacity. This laudable policy has been dictated largely by the desire to maintain the company's rank among steel makers and admit of expansion and improvements without the aid of too much outside capital.

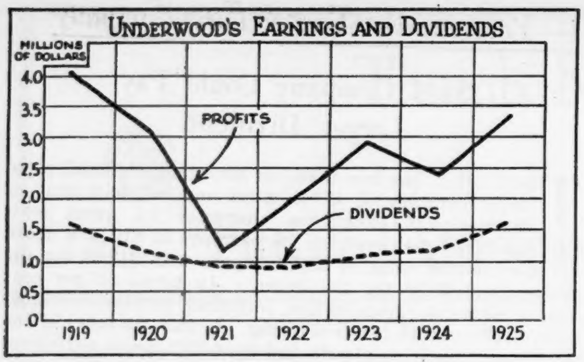
Its trade position was considerably strengthened by absorption of the Brier Hill Steel Company early in 1923, and, a few months later, acquisition of the Steel & Tube Company of America. By virtue of these additions to existing facilities, the company secured a broader geographical distribution of its plants with attendant benefits. That is to say, productive capacity was brought closer to the principal markets with a resultant saving in costs of distribution. A desired diversification of output was also realized through these mergers since Youngstown was originally something of a specialist in tubular products in which line it is still the largest independent producer.

Youngstown has shared in the steel industry's 1926 prosperity to the full as shown by net earnings of $3.60 a share for the common stock in the first quarter compared with $3.48 a year ago. Working capital at the close of 1925 stood at 65.60 million dollars of which 14.14 millions were cash and marketable securities.

In view of current earnings and the strong financial position, it is not unreasonable to anticipate a more liberal dividend than the current $4 rate before the year is out. Accordingly, the common at 80 seems attractive from the viewpoint of probable price appreciation.

Youngstown's Expansion in Five Years

Year	Plant Account	Working Capital	Gross Sales	Earned on Common	Divs. Paid
1921	$70,508,805	$29,091,263	$31,195,832	nil	$3.50
1922	71,779,284	31,311,942	59,313,950	$3.76	2.25
1923	164,264,368	65,192,178	165,649,369	14.94	5.75
1924	169,805,564	62,967,559	121,456,370	6.68	4.50
1925	180,421,891	65,602,480	136,513,585	12.38	4.00



5—Underwood Typewriter Co., Inc.

An Unusual Record of Stability

UNDERWOOD Typewriter is one of the comparatively few industrial organizations that passed through 1921 without reporting a deficit. The present company was organized in 1910, and in every year since dividends on the common stock have continued without interruption.

Capitalization consists of 35,000 shares 7% cumulative preferred, $100 par, and 400,000 shares common, $25 par. There is no funded debt. The old $100 common stock was split up on a four for one basis in 1923. Very large profits were rolled up during the war accompanied by substantial extra dividends. In fact, although earnings have been uniformly satisfactory, it was not until last year that the company succeeded in duplicating and even surpassing the net income derived in 1919, the previous high record. Production and domestic sales of typewriters in 1925 were the largest in Underwood's history. This was all the more noteworthy in view of the remarkable comeback which has been staged by the company's principal competitor, Remington Typewriter.

After the reduction in par value, the common was placed on a $3 annual dividend basis, which was maintained as the regular rate until April last, when it was increased to $4. A dividend of $4 was disbursed in 1925, but the additional one dollar in that year took the form of an extra.

The March quarter is generally the most prosperous of the year. In the first three months of 1926 Underwood showed $1.96 per share as against $2.31 in the corresponding period of the previous year. Whether the decline has any significance in face of a considerable increase in the first quarter reported by Remington, it is too early to determine. Exports have constituted a fair portion of Remington's growth in business, and while it is possible that some inroads have been made into Underwood's domestic sales, at the same time, an important factor in Underwood's success has been its policy of always keeping abreast with the times, and is seems doubtful that conditions will arise to impair such a well established trad position.

The products of the company include a "Standard Portable Typewriter," a "Quiet Typewriter" in which the working parts have been enclosed, and a sound-proof cabinet that my be used in conjunction with the regular Standard Underwood Typewriter, Bookkeeping Machines are likewise manufactured and sold. The plants are located at Hartford and Bridgeport, Connecticut. Distribution is effected through more than 200 branch and sub-branch offices in various parts of the country.

Underwood common at the present market around 54 returns a yield of 7.4%, which must be regarded as attractive in view of the strong financial setup, the stability of earnings demonstrated, and the current wholly satisfactory margin which is being earned over dividend requirements.

6—Associated Dry Goods Corp.

A Strongly Entrenched Retail Enterprise

ALTHOUGH returning a yield of less than 6%, the common stock of this company presents many interesting features, and is well worth the attention of those who place solid values ahead of immediate income.

This holding company, with a 100% stock ownership in seven large dry goods stores in six important cities, and an 85% interest in Lord & Taylor, New York, has never reported a loss since organization in 1916, even during the post-war deflation. Profits of the wholly owned stores have shown a steady gain year by year since 1920. The record of Lord & Taylor, while not published in detail, is no less favorable. Only dividends actually paid are included in Associated's income statement, but this affiliated concern has succeeded in liquidating all arrears in its preferred dividends, and in 1925 carried to surplus an amount equal to approximately one dollar per share on the common stock of the holding company.

The securities of the wholly owned stores are carried at 26.7 millions. This figure is based on net tangible assets only, no goodwill or other similar items being included. Hahne & Co. of Newark, New Jersey, is given the largest valuation of the seven. Next comes James McCreery and Co. in New York City. These are carried at 7.4 millions and 6.6 millions, respectively. The others range considerably lower. Profits of the seven stores in 1925 aggregated about 4.1 millions, which represents approximately 15% earned on the tangible assets. Lord & Taylor has outstanding securities with a total par value of about 7.3 millions. Net income in 1925 amounted to nearly 1.3 millions, or about 18% on par value.

Associated has two issues of preferred stock totaling a little over 200,000 shares, and representing the only capital obligations ahead of the 594,400 shares of no-par common. The latter were the result of a four-for-one splitup of the old $100 par common. Whereas $5 a share had been disbursed on the old stock, the rate in effect was doubled upon the establishment of the new shares on a $2.50 annual basis.

Present dividends are well within the earning power of the company. It has always been the policy to retain in the business approximately one dollar for each dollar distributed to stockholders. The benefits of such a policy were well exemplified in the sensational advance in the old stock during the bull market of 1924-1925. Earnings have exceeded $4 a share on the new stock in each year since 1921. Last year's figure was $4.73.

Some slowing-up in retail trade, in conjunction with the general decline in stock prices, has made the common available some twenty points under its peak level. At 42 it is about five points above the low for the current year, and appraised at nine times its recent earning power. This cannot be regarded as at all excessive for a company enjoying recognized stability, ample finances, and sound management. It is not reasonable to look for a repetition of the spectacular advances of the last two years, *but the stock should, nevertheless, give a good account of itself.*

Associated Dry Goods

	*Earned per Share Com.	Dividends Paid (Millions)	Earnings Retained in Business (Millions)	Profits Wholly Owned Stores (Millions)	*Price Range H	L
1922	$4.11	$1.9	$1.9	$3.2	18	11
1923	4.46	1.9	2.1	3.7	22	15
1924	4.95	2.1	2.2	3.8	35	18
1925	4.73	2.4	1.7	4.1	61	32

* On basis present capitalization.

7—*Central Aguirre Sugar Co.*

Porto Rican Sugar Stock's Interesting Position

ADMITTEDLY, common stocks may be purchased with greater advantage for speculative purposes when conditions surrounding the issuing company are most unfavorable but on the verge of turning for the better. Speculation in such issues requires a good deal of patience at times and a willingness not only to recognize, but also assume, risk.

Central Aguirre appears to be a case in point. While the company earned its dividend by a substantial margin in the last fiscal year, it is doubtful that results in the current twelve months will be satisfactory. The company has received a lower price for its output as a natural outcome of depression in the sugar industry. However, this is a lesser consideration than the reduction in output. Production in the past season has fallen considerably below expectations. Unfavorable weather conditions caused a lowering of sugar yield despite a gain in actual tonnage per acre planted so that the season's output may fall 20,000 to 25,000 tons short of the 1924-1925 showing.

Uncertainty in respect to maintenance of the current $6 dividend, accordingly, constitutes the principal element of risk involved in immediate purchases of Central Aguirre Sugar. Offsetting this, however, is the fact that, despite wide variations in earning power which the company's annual reports disclose, it has been able to show substantial balances for its capital stock in other years. Even in 1921, for example, net profits were $4.45 a share for the 3.6 million dollars of $20 par value common stock, the company's only capital obligation and dividends have been interrupted in only two of the past seventeen years.

Shareholders, in fact, have fared very well in respect to such disbursements, taking the average payment over a series of years. Thus, dividends on the old $100 par value shares varied between 6% and 60% in the period between 1909 and 1920, with no payments in 1913 and 1914. In 1920, five new shares were issued for one old and dividends of $14 a share paid, followed by a 20% stock dividend in 1925 and other cash disbursements as shown in the table below.

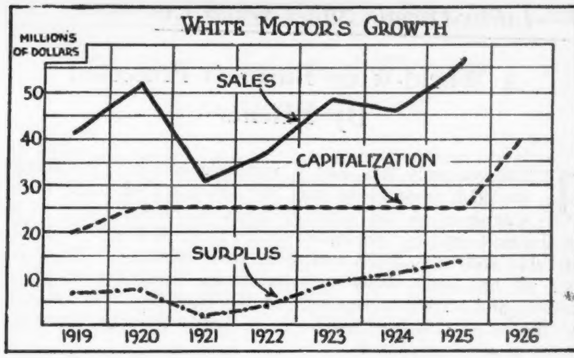
As a Porto Rican producer, Central Aguirre enjoys advantages not possessed by the Cuban companies. Freedom from imposition of duties on sugar imported from Porto Rico is a material aid. It is doubtful that the experience of another short crop will be repeated but of greater importance at present is the action of Cuba in seeking to remedy low prices through a severe tax on production in excess of a fixed amount. The limitation of output which is expected to result will doubtless redound in greater benefit to companies like Central Aguirre than to the Cuban concerns since production of the former will not be restricted and they stand to profit fully from probable stabilization of prices.

Whether or not its dividend policy is changed, therefore, Central Aguirre common has interesting speculative possibilities. The shares are worth watching for opportunities to purchase on recessions from the current over-the-counter price around 80.

Central Aguirre Sugar's Production and Earnings

*Year	†Tons Sugar Produced	Total Income	Net Income	Earned per Share	Divs. on Common
1920	51,011	$17,560,320	$9,178,491	$16.24	$16
1921	61,049	5,601.878	667.137	4.45	7½
1922	46,458	4,421,497	751.838	5.01	6
1923	50.852	6,503,710	8,398,975	15.99	11
1924	45,975	5.062.925	1,048,105	6.99	6
1925	88.198	6,010,939	1,457,325	9.71	‡6

*Years ended July 31. †Production for season. ‡Also 20% in stock.



8—*White Motor Co.*

Important Factor in a Growing Industry

THIS company has for some years confined its activities to the manufacture and sale of commercial vehicles. It was among the first to see the possibilities of the passenger bus, a line which, with medium weight trucks, now shares the greater part of the business.

In spite of marked expansion in volume of business in the last six years, the capital structure underwent no change whatever until a few months ago. Only one class of stock is outstanding. Share capitalization, which for a long period stood at 500,000 shares, was increased to 800,000 early in the year through the medium of a 20% stock dividend and the sale of 200,000 additional shares. The funds thus raised are to be employed in expanding the business to meet the ever-growing demand for trucks and buses.

Sales last year were 57.7 millions against 30.3 millions in 1921, the number of units sold increasing from 6,727 to 11,933. Earnings last year were equivalent to $10.11 a share on 500,000 shares. From 1922 to 1925 inclusive, the average was $9.94, and in no case did they fall below $7.50. The dividend rate has remained throughout at $4 per annum, and is still in effect on the increased capitalization. On the basis of the present shares outstanding, 1925 income would have worked out to $6.32 per share, still a fair margin over dividend requirements, but naturally this takes no account of the additional profits to be expected from the expenditure of the proceeds of the stock sale.

A company so well equipped financially and physically as White Motor can hardly fail to benefit materially from the inevitable growth in the demand for trucks and buses. However, the increase in business up to date, while satisfactory, has not quite measured up to that of Mack Trucks, the principal competitor. This is, no doubt, due in part to the fact that White has heretofore adhered to a policy of conservatism. Recent developments, however, especially the increase in capital at this time, seem to indicate a bid to regain supremacy in the field. However successful such an attempt may be, with the expert management of White, it should at least be rewarded by a substantial upturn in volume of business.

Selling on the deferred payment plan has assumed such large proportions that the company decided the business of financing such operations could be conducted more efficiently by a separate subsidiary corporation. Title to various properties throughout the country rests in another subsidiary, to which White pays rental. All profits so accruing revert, however, to the parent concern through ownership of the entire subsidiary common stock. This procedure enables these side activities to be conducted with no danger of impairing the working capital required for the regular business.

The current price of the stock around 57 *offers ample room for enhancement in market value over the next few years.*

9—Libby-Owens Sheet Glass Co.

A World-Wide Business Protected By Patents

THIS company has had a meteoric career. Organized in 1916, production was not inaugurated until 1919. Earnings on the common stock increased from $1.60 in the first year of operations to the peak of $14.47 in 1923. In 1924 and 1925, $9.98 and $8.52 were reported. The falling off has been occasioned partly by weakness in glass prices, and partly on account of the fact that the number of shares outstanding has been increased through the payment of stock dividends.

The major portion of the distribution to stockholders has been in the form of stock dividends. Cash payments have been conservative in order that ample funds might be retained in the business to provide for expansion. In the seven years of operation, no less than 10 millions have remained undistributed.

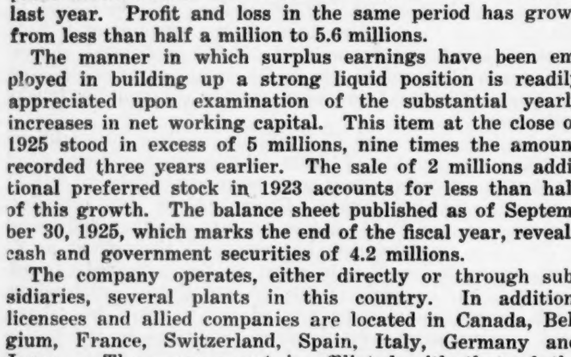
Reported earnings, moreover, do not tell the whole story, otherwise it would be difficult to justify a price above 130, especially as the regular cash dividend rate is only $2 per annum with extras from time to time. Liberal deductions have been made for writing off patents. Patent account, which in 1918 amounted to 4.3 millions, is at present $965,000. At this rate the item will be all but eliminated by the close of the year, and the large revenues derived through control of patents will represent a clear gain to the business.

Expansion from earnings is reflected in an increase in plant account from 1.4 millions in 1919 to over 9 millions last year. Profit and loss in the same period has grown from less than half a million to 5.6 millions.

The manner in which surplus earnings have been employed in building up a strong liquid position is readily appreciated upon examination of the substantial yearly increases in net working capital. This item at the close of 1925 stood in excess of 5 millions, nine times the amount recorded three years earlier. The sale of 2 millions additional preferred stock in 1923 accounts for less than half of this growth. The balance sheet published as of September 30, 1925, which marks the end of the fiscal year, reveals cash and government securities of 4.2 millions.

The company operates, either directly or through subsidiaries, several plants in this country. In addition, licensees and allied companies are located in Canada, Belgium, France, Switzerland, Spain, Italy, Germany and Japan. The management is affiliated with that of the Owens Bottle Co., the concern controlling the Owens automatic bottle machine which has revolutionized the manufacture of glass bottles. Libbey-Owens controls the Colburn process for the manufacture of all kinds of sheet glass by drawing the material directly from furnaces without the aid of blowing. The mass production thereby made possible has opened up almost unlimited potentialities.

The market for Libbey-Owens stock is over-the-counter and on the New York Curb. *Although unattractive from a yield standpoint and subject to sizable intermediate fluctuations, the common around 135, from the point of view of a long term holding, has good prospects.*



10—Reid Ice Cream Corp.

A Promising Company in a New Industry

WITHIN very recent years, there has developed a marked tendency toward concentration among industries which were formerly represented by scattered, closely held and relatively small manufacturing units. The ice cream business, for example, was wholly unknown to the rank and file of investors prior to 1923. Reid's listing on the N. Y. Stock Exchange in 1925 followed the invasion of large scale organizations in the ice cream industry and organization for public participation of an enterprise founded, very modestly, forty-two years ago.

Reid Ice Cream

Capitalization

Bonds	$2,000,000
Preferred Stock..	2,202,500
Common	175,000 shares

Year	Net Sales	Net Income
	(Millions of Dollars)	
1922	$6.40	$0.85
1923	7.57	0.57
1924	8.29	0.98
1925	9.86	1.26

Operations have been profitable in each of the years since the business was founded and the enterprise has grown with the territory served. Its founders started with an initial investment of $20,000. This investment gradually grew until the modern corporation was evolved in 1924 as a consolidation of two companies operating in New York City, Brooklyn, Connecticut and northern New Jersey. Growth has been especially pronounced during the past five years. Manufacturing capacity has trebled and net sales have mounted progressively from 5.19 million dollars in 1920 to 7.57 millions in 1925.

The company has gradually increased its radius of distribution and late last year opened a new branch in Philadelphia which carried its territory considerably further to the southward than heretofore. It now serves the populous areas embraced by the cities of New York and Brooklyn, as well as Long Island, Westchester County N. Y., all of New Jersey and southern Connecticut. Much of this expansion in operations has been financed out of earnings.

The major share of gross revenues are derived from the manufacture and distribution of ice cream which is sold to confectionery stores, restaurants, drug stores and the like. Concerns such as Woolworth, Happiness Candy and National Drug Stores are numbered among the principal consumers. The sale of milk and cream is an important item, however, these products being distributed direct to householders by wagon delivery. A minor source of revenue is derived from powdered flavors and charlotte russes.

Barring a slump in 1923, due to labor difficulties, net earnings have been characterized by marked stability. The business is notably immune to trade and industrial depression and has practically no inventory problems since much the greater percentage of sales is conducted upon a cash basis. This last named feature of operations permits conduct of the business with a much smaller working capital than would otherwise be required. Ratio of current assets to current liabilities was considerably improved last year, however, being more than 3 to 1 compared with 1.7 to 1 at the close of the year preceding.

Dividends are now being paid at the rate of $3 a share on the common stock which is currently quoted around 44. With earnings of $5.43 a share in 1924 and $7.36 a share in 1925, this rate is, clearly, conservative. *In fact, last year's showing, taken in conjunction with prospects for continued gains indicate that this issue has promising possibilities.*

11—Cluett, Peabody & Co.

Leading Collar Company's Shares Undervalued

Cluett, Peabody

Capitalization

Preferred stock $9,000,000

Common ..... 192,391 shares

Year	Earn. per Share Com.	Price Range H	L
1921	.... nil	62	36
1922	.......$11.07	70	43
1923	.... 13.21	76	60
1924	.... 6.00	75	55
1925	.... 7.65	70	67

CLUETT manufactures handkerchiefs, shirts, underwear and other wearing apparel but is best known as a maker of "Arrow" collars. It is the largest factor in the latter field and has so far outdistanced its principal competitors that it practically enjoys a monopoly of the business. Skillful management has been the secret of its success, obviously. Persistent national advertising has carried the "Arrow" trade name to all quarters of the United States and Canada and it is even familiarly known in other countries where sales offices are maintained.

Thus, the company has selling agencies in Havana, Cuba; Manila, Philippine Islands; San Juan, Porto Rico; and Hong Kong, China, as well as in South America and Europe.

The business is very old, dating back to a partnership formed in 1851. A succession of such partnerships was followed by organization as a corporate entity in 1901. Thereafter, the company continued to grow, absorbing others on occasion and enlarging its sphere of activity. In February, 1925, absorption of the business and assets of Earl & Wilson added three more plants to the company chain, two of these being in Troy, N. Y.

With settlement of the infringement suit brought by Phillips-Jones Corp., Cluett paid $795,500 to the latter and was granted a license to manufacture two-piece collars of the Van Heusen type under a royalty arrangement. While this suit might be regarded as a victory for Phillips-Jones, the settlement has assured Cluett the right to manufacture and sell this popular semi-soft collar and protect itself against competition which might otherwise have proved serious.

That the cash payment referred to did not materially affect the company's financial condition is evident from a review of the 1925 balance sheet. At the close of December, current liabilities were but $988,150 while current assets exceeded 15.04 millions.

Earnings are more or less variable, as might be expected of a company related to the textile industry. Thus, while net sales have expanded from 9.64 million dollars in 1909 to 24.88 in 1925, net income has tended to remain somewhat static, in relation to gross, owing to the upward trend of production costs. Cluett, however, is favored by relatively cheap labor and its position is such that only severe business depressions have reduced profits materially.

Inventory losses in 1921 caused a marked slump in net income which fell to $275,400. After preferred and common dividends, there was a total loss of $585,540 in that year. A similar, but much smaller loss, was registered in 1920. These unsatisfactory results and a heavy accumulation of high-priced inventories forced suspension of common dividends in April, 1921, following continuous payments since 1914. Disbursements were resumed three years ago at the prevailing rate. On its record, therefore, Cluett is evidently well able to show substantial earning power under conditions such as now exist.

At the present time, the common shares seem considerably undervalued since, around 64, the $5 dividend nets a return of 7.8%.

12—Electric Storage Battery Co.

A Strong Industrial With An Exceptional Record

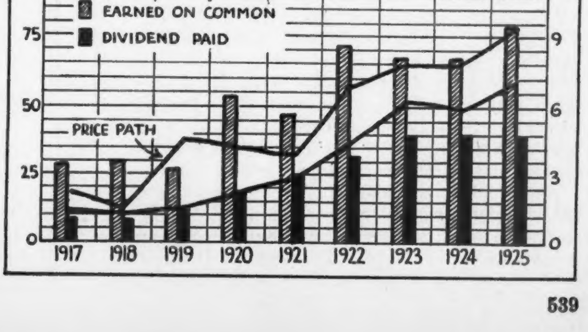
FEW companies have a more consistent or remarkable record than Electric Storage Battery. To shareholders who have been so fortunate as to have held the common stock year in and year out since issuance, the company has been a veritable gold mine. It has paid dividends continuously since 1901 and while payments were modest enough until 1920, thereafter they were generous. In that year, the company paid $10.50 a share and in the next year $12. Growth in earnings had forced the common to the high price class by 1923 so that the company deemed it advisable to split these shares four for one. Dividends on the new issue have also been gradually raised. Last year, Electric Storage Battery paid $5 a share on the common, including $1 extra and in January of the current year increased the rate to $5 regular, at the same time disbursing another $1 extra.

The company is fortunate in serving two of our most important and prosperous industrial groups, namely, the public utility and automobile companies. No other explanation of its expansion is necessary. Yet, it has also benefited from the rise of still another industry within very recent times, that being, of course, radio in which storage batteries are extensively used.

Obviously, the high rate of production and demand for automobiles was no inconsiderable factor in the company's business last year. A marked let-down in the motor industry would undoubtedly influence gross revenues and earnings for the common stock. Yet the effect would not be likely to be disturbing to Storage Battery's position to any material extent since the demand for its output in the public utility and more lately in the radio field is by no means a small part of the total. It needs no more than a cursory examination of the company's earnings record to establish this fact, for not even the 1921 depression was able to do more than cause a comparatively minor break in the steady upward march of net income. Incidentally, radio was then only in its infancy.

Last year, the company's gross sales reached a new peak at 13.98 million dollars and net profits were $9.48 a share for the 797,917 outstanding shares of no par common stock, likewise a record. This issue is preceded by an almost negligible amount of preferred stock, the remainder of a convertible issue of which the present 1,256 shares represent a balance that holders have not seen fit to exchange for common stock.

In addition to its strong earnings position, Electric Storage Battery is eminently sound in other respects. Despite the liberality of dividend payments, financial position has not been neglected. Over 31.8 million dollars have been retained in the business, after all charges and dividends, in the past ten years. In consequence, working capital at the close of 1925 was equivalent to more than $30 a share of common stock. *The latter issue, on its record, is entitled to classification as an investment common stock, and, in view of the company's outlook, still seems to have room for appreciation in price above the current level around 84.*



13—Humble Oil & Refining Co.

A Giant Among Standard Oil Unit Producers

Humble Oil

Bonds—$25 millions
Stock—3 million shares $25 par value

	Gross Revenue (Millions)	Earnings per Share
1922	$26.5	Deficit
1923	40.4	$2.89
1924	48.7	5.62
1925	68.6	12.93

THE predecessor company started business in 1911 with a capital of $150,000. The capitalization of the present company is 100 millions, consisting of 25 millions funded debt and 75 millions stock of $25 par value. On the basis of the current market, the securities are valued at well in excess of 200 millions.

Humble is controlled by Standard Oil of New Jersey through ownership of 70% of the stock. In line with the growing tendency of the big refining interests to secure absolute control of producing properties in order that there may be no question of an adequate supply of crude at all times, the impression has prevailed that it would be only a question of time before New Jersey would seek to acquire 100% ownership by offering its own stock in exchange for the minority holdings in Humble. The basis of such a hypothetical exchange has been the subject of much animated discussion in financial circles.

Regardless of such a development, however, there is ample material in the status of Humble itself to arouse interest. The company operates in all branches of the oil industry, but the production of crude oil is the predominant end of the business. 1925 production aggregated 22.5 million barrels, an average of about 62,000 barrels daily. This was equivalent to about 3% of the total production in the United States. The properties are located in Texas, Oklahoma, Louisiana and Arkansas, and still include vast undeveloped areas. The company has led in Texas production for three consecutive years.

Like all well managed oil companies, Humble has written off substantial sums against depreciation and depletion. A review of its financial history, however, tends to leave the impression that Humble has been more generous than the average in this respect. In other words, it may be inferred that balance sheet figures do not reflect the full measure of present day values owned by the company.

In any event, the company is well fortified with physical assets as indicated by the 100.06 million dollar investment in plants and equipment. This figure compares with 74.71 millions at the close of 1921. Oil inventories, as of December 31, 1925, were valued at 47.89 million dollars, a gain of approximately 40 million dollars over four years ago. Net tangible assets applicable to the common were thus equivalent to $54 a share for the 1.75 million $25 par value shares outstanding at the close of 1925.

The 22.5 million barrel output in 1925 compared with less than 8 million in 1920. Gross income last year was 68.6 millions, 20 millions more than in 1924. In the same two years, share earnings increased from $5.62 to $12.93. The latter figure is equivalent to $7.76 on the 3 million shares now outstanding. The increase in capital occurred last March when additional shares were sold to stockholders at $25 a share.

Conditions in the oil industry are such that Humble will probably exceed last year's record earnings by a fair margin during the present twelve months. Recently, an extra dividend of 30 cents a share was paid in addition to the regular 20 cents quarterly. It is probable, in view of current earning power, that these extras will be continued so that the common affords a net yield of 6.3%, which is considerably larger than the return afforded by the average Standard Oil issue. *The stock is not high priced at the present market around 64, and in fact offers perhaps the best possibilities of any issue in the Standard Oil Group.*

14—National Supply Co.

An Essential Business Strong in Assets

FINANCIAL strength has always been a feature of this company's status. At the end of last year, net working capital amounted to approximately $96 a share on the common stock, some thirty-five points in excess of the current market valuation. Book value was about the same.

Inventory account makes up 12.64 millions of the 28.81 million dollars of current assets and 10.82 millions are accounted for by accounts receivable. In a business of this kind, however, supplying an infinite variety of tools and parts, the large inventory is a source of strength since it assures excellent service to customers. The fact that the company is able to keep 39.63 million dollars employed in receivables and inventories and still show 5.35 million dollars cash, without recourse to bank loans is a further evidence of its exceptional financial standing.

The business consists of the manufacture and sale of equipment, machinery, and supplies for every branch of the oil industry. In addition, a part of the products sold are acquired from other large manufacturers. The highly unstable character of the oil industry itself is naturally reflected in the volume of output of an enterprise engaged in furnishing the equipment. A strong liquid position, therefore, is almost essential in order to accomplish any sustained success in this field.

Nineteen twenty-three was a year in which flush production ran wild, particularly in California. The consequent demand for drilling machinery enabled National Supply to achieve far greater profits in that year than at any time since. Net income was no less than $14.67 per share on the common. This compares with $5.71 and $5.09 in 1925 and 1924 respectively.

The company in its present form dates back only to 1922, but the net profits of the predecessor company and subsidiaries in every year back through 1918, with the single exception of 1921, exceeded that of the last two years. There would seem to be a probable minimum below which earnings are not likely to fall because of the inevitable needs of a vital industry and this company's long experience in supplying those needs. On the other hand, an event such as the widespread development of new producing fields in any one year, while decidedly detrimental to the welfare of the oil industry, may well prove a bonanza for National Supply.

One negligible subsidiary bond issue and about 71,000 shares 7% cumulative preferred stock are the only capital obligations ahead of the common. The common dividend has just been increased from $3 to $4 per share annually, a rate which, while employing a considerable portion of recent earnings, seems justified by the financial strength and past record of the company. The common has always been a rather inactive issue marketwise, and on some days no transactions are recorded. *At 60, however, it returns a yield of 6.7%, and is worthy of consideration as a reasonably safe medium for income and one which affords promise of eventual profit.*

National Supply Since Organization

	1923 H	1923 L	1924 H	1924 L	1925 H	1925 L
Price Range of Common	70	50	72	54	71	54

	1923	1924	1925
Total Fixed Assets	$7,953,236	$7,766,233	$7,414,118
Profit and Loss Surplus	12,084,006	11,430,873	12,156,264
Working Capital	23,820,222	24,296,027	25,989,259
Total Capitalization	19,355,565	20,539,365	20,522,380

15—Southern Railway Co.

The Evolution of a Self-Made Road

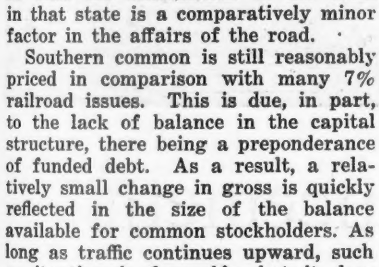
ADHERENCE to the fixed purpose of persistently building up the property without regard to other considerations, materially assisted by the industrial revival in the South, represents, in brief, the story of Southern Railway. An 80 point advance in the common stock in two years' time, in conjunction with the establishment of a $5, followed by a $7, annual dividend rate on an issue never before in the dividend class, tells the same story in a different way.

The steady increase in gross revenue has been accompanied by a constant lowering of the operating ratio until a figure below 70% has been reached. Condition of equipment is excellent despite record breaking freight traffic, and only normal expenditures for maintenance. Substantial savings have been effected through the reduction in rentals paid to other roads for the use of freight cars. Whereas, traffic expansion formerly meant high costs and overtaxed facilities. Southern Railway is now in a position to reap the benefits from prosperity in the South.

It is important to note that the main sources of revenue lie outside of Florida so that the culmination of the boom in that state is a comparatively minor factor in the affairs of the road.

Southern common is still reasonably priced in comparison with many 7% railroad issues. This is due, in part, to the lack of balance in the capital structure, there being a preponderance of funded debt. As a result, a relatively small change in gross is quickly reflected in the size of the balance available for common stockholders. As long as traffic continues upward, such a situation is favorable, but it does act as a bar to stability. It is probable, however, that a remedy will be found over a period of years by means of future financing through stock rather than bond issues.

Agitation is still going on in some quarters to compel a larger distribution to preferred stockholders. Similar efforts in the past have met with failure due to the fact that the preferred is definitely non-cumulative and limited to a 5% return. Once this litigation is over, the way will be paved for financing through the sale of common stock. *Southern common at 117, therefore, is attractive as a spec-vestment.*



Preferred Stock Guide

These stocks are selected as offering the best opportunities in their respective classes taking into consideration assets, earnings and financial condition of the companies represented.

For Income

HIGH GRADE INVESTMENTS

	Div. Rate $ per Share	Div. Times Earned— 5 Yr. Av'r'ge	Redeemable	§ 5 Yr. Price Range High	§ 5 Yr. Price Range Low	Recent Price	Yield %
RAILROADS							
Baltimore & Ohio	4 (N)	F4.75	No	67	47	71	5.6
Chicago & Northwestern	7 (N)	..	No	125	95	124	5.6
Chesapeake & Ohio Conv.	6.5 (C)	F14.8	115	F130	F96	140	4.6
N. Y., Chicago & St. Louis	6 (C)	F3.7	110	H98	H86	104	5.8
Colorado & Southern 1st	4 (N)	7.5	100	66	47	65	6.2
PUBLIC UTILITIES							
Columbia Gas & Electric	7 (C)	T6.1	115	T114	T102	115	6.1
North American	3 (C)	6.1	52.50	50	31	51	5.9
Philadelphia Company	3 (C)	6.5	No	49	30	50	6.0
Public Service New Jersey	8 (C)	3.4	No	F119	F95	119½	6.7
INDUSTRIALS							
American Smelting & Ref	7 (C)	2.4	No	115	63	118	5.9
American Steel Foundries	7 (C)	6.6	110	113	78	114	6.1
Armour & Co. of Del	7 (C)	2.3	110	H100	H84	93	7.5
Associated Dry Goods 1st	6 (C)	3.9	No	102	55	101	5.9
Baldwin Locomotive	7 (C)	2.6	125	117	95	110	6.4
Brown Shoe	7 (C)	F4.4	120	109	70	108	6.5
Cluett, Peabody	7 (C)	3.7	S125	110	79	112	6.3
Endicott Johnson	7 (C)	4.8	125	119	87	114	6.1
General Motors	7 (C)	F13.9	125	115	63	118	5.9
Studebaker Corp.	7 (C)	25.0	125	125	83	122	5.7

For Income and Profit

SOUND INVESTMENTS

	Div. Rate $ per Share	Div. Times Earned— 5 Yr. Av'r'ge	Redeemable	§ 5 Yr. Price Range High	§ 5 Yr. Price Range Low	Recent Price	Yield %
RAILROADS							
Colorado & Southern 2nd	4 (N)	7.0	100	62	35	63	6.4
Kansas City Southern	4 (N)	2.7	No	59	45	66	6.1
Pere Marquette Prior	5 (C)	8.5	100	85	50	88	5.7
St. Louis-San Francisco	6 (N)	9.1	100	92	28	91	6.6
Bangor & Aroostook	7 (C)	2.5	110	F100	F86	100	7.0
PUBLIC UTILITIES							
American Water Works & El	7 (C)	4.1	110	103	48	107	6.5
Federal Light & Traction	6 (C)	5.0	110	T89	T74	86	7.0
Kansas City Pr. & Lt	7 (C)	T3.1	115	H109	H91	111	6.3
Hudson & Manhattan R. R. Conv.	5 (N)	4.5	No	F72	F25	77	6.5
West Penn Electric	7 (C)	..	115	O100	O96	99	7.1
INDUSTRIALS							
Allis-Chalmers	7 (C)	2.4	110	109	67	108	6.5
American Cyanamid	6 (C)	3.1	120	96	52	90	6.7
Bush Terminal Buildings	7 (C)	1.1	120	103	87	103	6.8
Commercial Credit 1st	6.5 (C)	..	110	N99	N92	93	6.8
Cuban American Sugar	7 (C)	F8.2	No	106	68	102	6.7
Genl. American Tank Car	7 (C)	3.1	110	F104	F86	102	6.9
Gimbel Brothers	7 (C)	4.3	115	F114	F95	105	6.7
Goodrich (B. F.) Co.	7 (C)	F2.7	125	102	62	95	7.4
Loose Wiles 1st	7 (C)	3.3	120	112	93	115	6.1
Reid Ice Cream	7 (C)	T6.9	110	O100	O92	98	7.1
U. S. Cast Iron Pipe	7 (N)	3.7	No	113	38	108	6.5
U. S. Industrial Alcohol	7 (C)	4.3	125	115	84	102	6.9

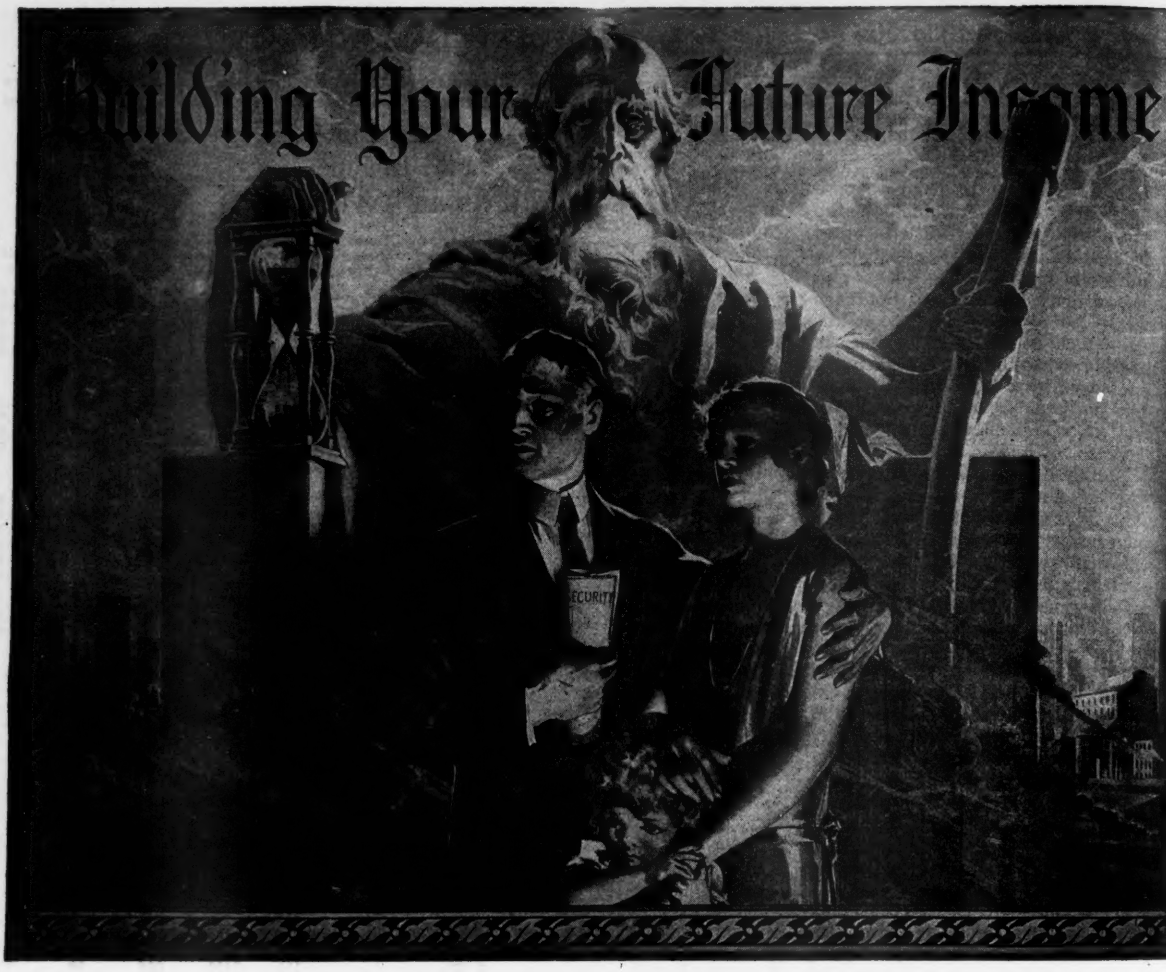
SEMI-SPECULATIVE

	Div. Rate $ per Share	Div. Times Earned— 5 Yr. Av'r'ge	Redeemable	§ 5 Yr. Price Range High	§ 5 Yr. Price Range Low	Recent Price	Yield %
PUBLIC UTILITIES							
Brooklyn-Manhattan Transit	J6 (C)	T3.0	100	83	34	84	7.1
INDUSTRIALS							
Bush Terminal Debentures	7 (C)	T1.8	115	N89	N80	92	7.6
Consolidated Cigar	7 (C)	2.5	110	96	53	103	6.8
Dodge Bros.	7 (C)	..	105	O91	O73	87	8.1
International Paper	7 (C)	1.6	115	N99	N86	93	7.5
Mid-Continent Petroleum	7 (C)	F1.6	120	F109	F80	100	7.0
Orpheum Circuit Conv.	8 (C)	2.6	110	F107	F84	104	7.7
Pure Oil Co.	8 (C)	4.2	No	F108	F82	112	7.1
Radio Corp. of America	3.5 (C)	3.4	55	54	45	48	7.2
Universal Pictures 1st	8 (C)	7.6	110	O103	O94	97	8.3

SPECULATIVE

	Div. Rate $ per Share	Div. Times Earned— 5 Yr. Av'r'ge	Redeemable	§ 5 Yr. Price Range High	§ 5 Yr. Price Range Low	Recent Price	Yield %
RAILROADS							
Chicago, Rock Island & Pac	7 (†)	1.2	No	99	15	99	7.1
Gulf, Mobile & Northern	6 (C)	F1.6	105	105	66	106	5.7
Wabash "A"	5 (N)	..	110	73	18	75	6.7
Western Pacific	*6 (C)	F0.9	105	86	51	82	7.3
INDUSTRIALS							
First National Pictures 1st	‡8 (C)	T4.7	115	N110	N100	104	‡
Goodyear Tire & Rubber	7 (C)	1.7	S110	H114	H35	107	6.5
Remington Typewriter 2nd	8 (C)	3.3	No	113	47	114	7.0
Willys Overland	7 (C)	..	110	123	23	97	7.2

* Cumulative to extent of 2 yrs. divs. † Cumulative up to 5%. ‡ Participates in excess earnings: paid $1.44 extra in March. J—After July 1, 1926. F—Four years. H—Three years. T—Two years. S—For sinking fund. N—Price range 1926. O—Price range 1925. § 1921-1925.



Prize Contest Announcement!

THE Building Your Future Income Department has the pleasure of announcing a Mid-Summer Prize Contest of unusual interest and educational value to its readers. The contest is open to everybody, whether a subscriber to THE MAGAZINE OF WALL STREET or not, and has no penalties of any kind to bar you from participation.

The only qualifications are: first, that your article shall describe your ACTUAL experience with investment securities; second, maximum length should be twenty-five hundred words (the shorter the better) and third, articles should be submitted in typewritten form (or plainly written in ink).

Cash prizes of $100, $50 and $25 will be paid respectively to the first, second and third prize winners. Other articles of unusual merit, not included in the judges' selection of the prize winners, will be published at the usual rates paid by this Department. All manuscripts must be in the hands of the BYFI Editor by noon, Saturday, September 11th—*but get started early and send your article in as soon as it is ready.*

Here are a few pointers on how to write your articles: First consideration will be given by the judges to articles which contain *the most practical, money-making suggestions relative to the use of securities in estate building;* or, in other words, accumulating wealth by security investment methods. Articles describing stock market trading exclusively will not be considered. By securities we mean bonds of all types, notes, preferred stocks and common stocks with investment merit—other investment mediums such as savings banks, insurance, building and loan shares and others frequently discussed in the BYFI Department *have no place in this particular contest.* Make your stories as interesting as possible but remember that *the practical value of your experiences to other readers* will draw the prize, and not literary merit. Articles frequently are made more suitable for publication when accompanied by charts or tables with the record of your transactions. All unsuitable manuscripts will be promptly returned, if stamped return envelope is enclosed. We want your article to tell just how you managed your investments, your successes or failures and the reasons for them, and how you propose to continue your estate-building through securities. Do not deal with theories, but with the actual facts of your investment methods.

Send your effort to the Prize Contest Editor, care of THE MAGAZINE OF WALL STREET.

An Investment In "Self Improvement" That Paid Dividends

Like a Corporation, an Individual Must Reinvest Part of His Income in Order to Increase His Earning Capacity

By ROBERT CARTER

THIS is the story of John Blake, who received his honorable discharge from the navy in February 1919, and returned to his pre-war job in the bank at about $125 per month.

A single man has several alternatives on even $125 per month. He can spend it all—which is far from difficult. He can save a little and do one of three things with his savings:

—put them in a bank at 4% interest;

—buy a bond on partial payments;

—invest in himself to increase his earning power.

John saved as much as he could spare from his monthly income and put a little in the latter plan. He invested in a night course in advertising which cost about $50, on time, and some evenings downtown. He followed this with a course on bonds—another $45.

Meanwhile he did not hide his light under a bushel. At the bank, the powers that be soon began to realize that John was studying advertising and they were not allowed to forget it. John's steady stream of advertising suggestions were consistently rejected. But, at least, they won him a place in the New Business Department.

Finally one of John's suggestions brought favorable action. The bank management decided that a house organ, both for employes and customers, would be desirable. And John, being father of the idea, was made editor.

The house organ gave its youthful editor some valuable experience and advertised the bank. Incidentally it advertised John. He was asked to attend a national convention of an organization of younger bankers and give an address on bank advertising.

He accepted with alacrity. He had studied public speaking for two winters before the war—more time and money invested in self improvement about to pay dividends. And, as mentioned before, he had studied advertising.

About July First the monthly stipend was raised to $135. A little later the big opportunity came. Through a friend, John heard that an agency president in another city needed a man who could write advertising copy for banks. John landed the position at $50 a week—a good deal better than the $135 a month. From this point on, chalk up about $65 a month as minimum return from the investments in self improvement.

Then, John moved to the smaller city, where living costs were lower—and made good. A chance came to do some further investing and he did—he invested in a wife.

She is worth "at least $1,000,000." John will always feel that she is the finest investment he ever made. However, he had only saved $300 and this all went as a first payment on furniture and for the modest wedding trip and the first month's rent. But the $50-a-week job was still there—in fact the ante had been raised to $65 a week now. (The $10-a-month raises were forever past!)

The new home was started and maintained on a budget with a liberal allowance for self improvement.

John took a course in business letter writing—cost $125—on time. One of the principal duties of the Service Manager in John's agency—a $6,000 man—was the writing of form letters for banks to send to their customers.

When the Service Manager was called to another city and a better position, John was found capable of writing copy for these form letters and of handling other important phases of the Manager's work. No new man was employed. John simply took over these added duties and responsibilities, together with a raise in pay to $80 a week.

Now there was a real opportunity to buy bonds on the partial payment plan and John was not backward about grasping it. His savings-investment division of the budget called for $80 a month and it was met in full.

John's study of the various kinds of bonds and of investments in general through books, the bond course, and financial magazines came in handy here. He was able to select his securities intelligently. The family reserve grew. All debts on furniture and so forth were long since paid. And there were no charge accounts.

Another raise brought the salary to $90 a week. But John after a year or two of this became dissatisfied. He seemed to have touched the limit of compensation where he was. So he took a trip back to his home city and, on the strength of his experience in writing thousands of financial advertisements, landed a position with a future and a starting salary exceeding $5,000.

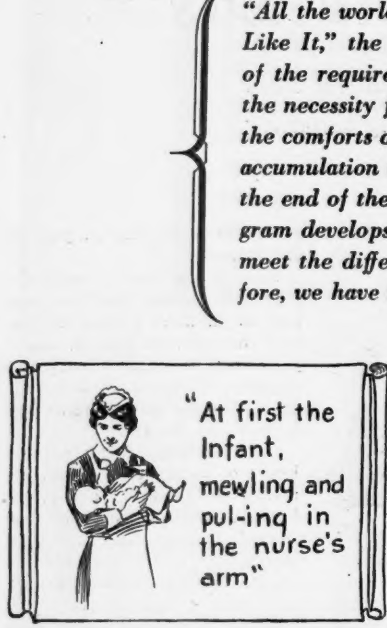
This meant moving, which was expensive, and higher living costs in the larger city. But the expense was merely another fee to self improvement. It was a confirmation of John's observation that one must often *spend more* if he would advance.

Suppose John had devoted his early dollars to other uses than self improvement. No correspondence or night school courses, no buying of financial books and magazines and—you said it—"no $5,000 plus per year." John would still be in the bank—probably at almost $200 a month by this time! And his savings account would certainly not be large enough to buy the bonds he owns today. As for the "$1,000,000 wife"—he would never have found her.

So, young man, to break through to higher pay, don't keep too tight a hold on the purse strings. Make your first investments in self improvement and you'll have more for good stocks and bonds later on. At least it is working out that way for John. It ought to for you. Try it!

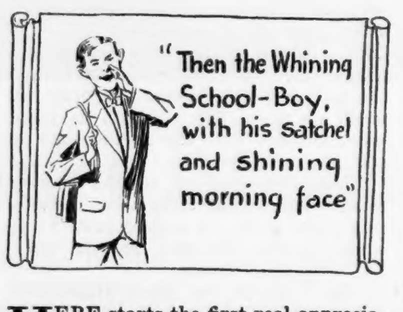
The Seven Ages of Investment

"All the world's a stage," said Shakespeare, introducing in "As You Like It," the famous passage on the Seven Ages of Mankind. One of the requirements, that the drama of life imposes on all of us, is the necessity for creating a sufficiency of material wealth to provide the comforts of life and the necessary protection for the family. The accumulation and proper care of wealth extends from the cradle to the end of the span of life. Through each stage, the investment program develops step by step, being revised, modified and extended to meet the different needs of the various ages. In its entirety, therefore, we have represented the Seven Ages of Investment.



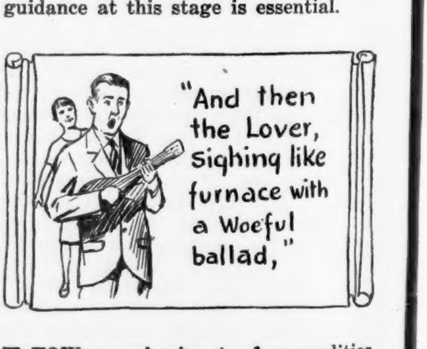
BARRING, possibly, the fortunate few who are born with the traditional "golden spoon in their mouths," the investment requirement in the age of infancy, is a modest one, quite conveniently accommodated by a Thrift Account in the nearby savings bank. This account opened with the shiny gold piece, contributed by a proud grandfather, is swelled by the gifts of cash that the unappreciative child receives from friends and relatives. Each birthday is likely to witness a sharp upturn in the balance of baby's capital wealth, and, steadily earning compound interest at the regular savings bank rate, the child is thus started at an early date on the long road to Financial Independence. Except for frequent references in the humorist's columns, "baby bonds" are not an essential factor in the infant's investment program, for the savings bank serves the purpose so ideally that there is little need of sharing the honors. Baby's bank is indeed a sacred trust for the fiduciary officer, who no doubt in real life is baby's father or mother, and as such should be maintained intact for more long range purposes than the immediate payment of a gas bill or a cash settlement with the milk-man. Nevertheless, if conscientiously kept up, a child's thrift fund can grow to extremely gratifying proportions.

From the acorn, grows the mighty oak. The nickels and dimes set aside in infancy finally grow into dollars. Dollars grow into bonds, stocks, homes and other mediums which in turn become the foundation of wealth. Income building is like home building, in that the builder must first gather his materials together even before the foundation for the home is laid. As far as income building is concerned, experience shows us that the first birthday is not too early to begin to accumulate the pennies, nickels and dimes that will be the brick and mortar for future income building.



HERE starts the first real appreciation of a growing savings fund. An account started in earlier years should be transferred into the name and possession of the junior saver. Personal management and control of the schoolboy's or the schoolgirl's saving fund is the first real training in thrift. The weekly allowance might well be made conditional upon regular deposits in the bank. Extra sums earned in various ways can be guided into the thrift fund with the proper encouragement. As the child grows older, the first venture into the investment field is in order. Reinvestment of a portion of the bank surplus into Liberties may be depended upon to stimulate an early pride of ownership for the soundest of all investment securities. Fifty dollar denominations in the strong-box greatly increase the sum total of wealth to youthful eyes and provide more coupons to be clipped regularly. Investment training at this point should stress the importance of reinvesting earned interest so that, by the "magic" of compound interest, greater headway can be made in building an estate than if the coupon money is spent as soon as it is due. So far, our investment program has provided necessary training and the really earnest estate-building will soon start in earnest.

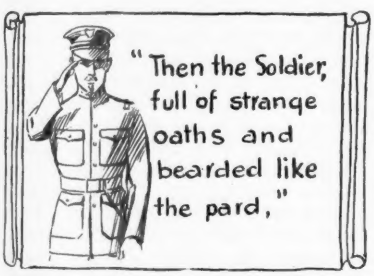
In the earlier years, the thrift fund has been maintained by the parent or guardian, with the personal satisfaction accruing from a growing fund being enjoyed by the sponsors of the fund rather than the youthful beneficiary. At this age, however, the first real personal interest is stimulated. This is the importance of the school-boy period in the Seven Ages of Investment. It is the place where the road divides, one route leading to careless spending and extravagance, while the other leads to thrift and old age comfort. Proper guidance at this stage is essential.



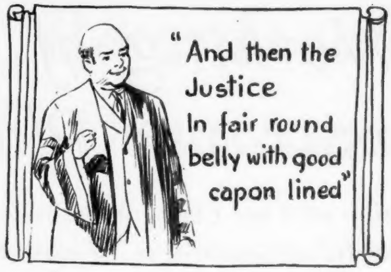
NOW, one begins to face realities and responsibilities in life. This age represents a period of preparation for the home and a career. Both require capital, but, fortunately, a nest egg has already been provided in the earlier years. Income is usually small during this period and expenditures are very heavy in proportion, so additional savings are frequently possible only on a limited basis. One must also anticipate the need for protection in future years for wife and children and the first insurance coverage is taken out during this period. Investments,

Building Your Future Income

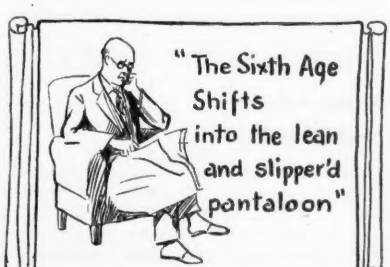
during this stage of life, might well be limited exclusively to conservative bonds issues, purchased outright with accumulated savings or on the partial payment plan with a budget to provide the necessary sums. Building & Loan shares are an excellent medium for regular saving and offer a definite obligation to save in a systematic manner that is sometimes necessary during these years when thrift means more or less of a sacrifice. This is the time when a home investment is well made, paying as it does, dividends in home ownership comforts as well as constantly increasing wealth as the home owner increases his equity by regular reductions of the principal of the mortgages. It is this stage of the investment program that is the most critical, because saving must be accomplished when it is hardest to save.



SINCE Shakespeare's day, soldiering has ceased to be the leading profession, but whatever occupation we elect, this age is when the accumulation of wealth starts in earnest. Between the ages of say, from 25 to 45, the average man attains the maximum of his earning power and it is during this period that the major part of one's estate, represented in savings, a home, bonds, preferred and common stocks, insurance and other capital assets is accumulated. Having already gone through the preliminary investment steps, the largest portion of one's surplus wealth is invested in good marketable bonds and preferred stocks. For the balance, during this stage of life, one can afford to be a little more venturesome with the end in view of larger capital gains and more profitable investments. Common shares of sound, well established corporations can be bought and sold to advantage, realizing a higher rate of dividend return as well as growth of principal. Companies must be analyzed, and business conditions that effect their prosperity must be studied comprehensively. The reward is more profitable investments and greater safeguards to the funds already accumulated. This is still the age when estate building can effectively be accomplished by the right kind of insurance contracts as well as security investments, obtaining through both provision for later years and adequate protection for one's loved ones.

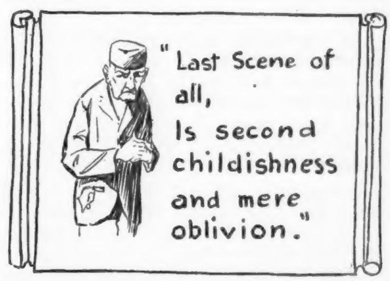


DURING the early part of this period, one's earning power is likely to reach its maximum and fall to a lower level as one gradually retires from an active business or professional career. An important step in the investment program occurs here, for one has more time to devote to investments and is able in the later years to arrange a gradual transition from early investments made with the viewpoint of ultimate capital gain to investments primarily for security of principal. Declining earning power can be partially offset by investment profits resulting from proper handling of an investment fund that has been accumulating over a period of years. Occasional reinvestment can be expected to provide profits that result from constantly changing security values in the broad swings of both the bond and the stock markets. Judicious investment in channels where the larger income is earnable becomes the criterion in place of ventursome investment for a large profit. Management of finances will occupy a large portion of one's time and energy, particularly until such time in the later years as the financial house has been put in order so that principal will be secure and income certain in the absence of constant attention to investments.



HERE one gives up the search for high income return and enhancement of principal entirely. At this stage of life, one again returns to safety of income and security of principal, limiting investments to the most conservative bonds. If the investment fund is sufficiently large, one lives entirely on the interest earned. Ready marketability might be sacrificed for part of the bonds on one's list but the bars should never be let down as far as the factor of safety is concerned.

The best of bonds, however, requires some attention. Coupons must be clipped; called numbers must be noted on non-registered bonds subject to call; reinvestment must be arranged for maturing issues. In addition, a weather eye should be kept on the security markets as well as the prosperity and prospects of the various corporations issuing the bonds held. If one anticipates a period when mental facilities will not be sufficiently keen to keep abreast of ever changing conditions, it is well to place the investment fund under the administration of a capable trustee. This also frees one from all worry and responsibility in the late years. At age sixty-five or over, one can purchase annuities to advantage with suitable provision for income to either husband or wife as long as either lives. In this form of investment, the income is liberal and the continuity of income throughout life is well assured. Additional security investments will, of course, provide extra income and an estate for any dependents that you may leave behind you.



IN the days of early England that Shakespeare describes, there were few opportunities for one to provide for old age. In those days, the late years were well described as "second childhood," for extreme age required the constant attention of those on whom one leaned just the same as very early youth. Today, fortunately, one is able to provide independence in old age by the intelligent accumulation of wealth in earlier years. A material self-sufficiency in turn provides spiritual peace and mental comfort. A successful man today looks forward to the declining years as years of rest and happiness. With the completion of an investment program and reinvestment of funds in years of middle life with safety as the primary consideration, we look forward to ripe old age with the satisfaction of having done a worthy task well. This is the end of the road to Financial Independence. The goal has been reached and the fruits of thrift and intelligent investment in the earlier years are ready to be plucked. To approach the "sun-set" of life with ample provision made in younger days for peace and quiet and comfort in old age is the greatest blessing that anyone could desire.

Practical Working of the Group Insurance Plan

Further Discussion of This Ever Increasingly Popular Form of Insurance and Its Advantages to Employer and Employee

By FLORENCE PROVOST CLARENDON

THE average worker on a modest income is confronted with these problems: What would happen if I suffer from a long or permanent sickness? What am I to live on in my old age? How will my family be maintained if I die suddenly? Large employers have been thinking of these things, and also insurance experts, so Group Insurance helps to solve these problems, and to alleviate the distress, if not actual want, which may result from the total disability or unexpected death of the wage-earner.

In a previous article we outlined the principal benefits of the Group Plan. As stated therein the usual plan employed for the Group Policy is insurance from year to year known as One Year Renewable Term. The group must be composed of fifty or more employees under a common employer, and as a rule the Group Policy covers all employees who have been in service for not less than six months or a year.

The installation of group insurance by employers is becoming increasingly popular. Recently one of the largest rubber corporations in the world, with branches in every prominent city and in all foreign countries, adopted group insurance on the contributory plan for its salaried employees. This group comprises over 9,000 lives, and the present coverage will involve from $15,000,000 to $20,000,000 of insurance.

The Amount of Individual Insurance

There are three plans used in determining the amount of insurance coverage for each employee: 1st, an equal amount for all; 2nd, an amount based on the employee's salary; 3rd, an amount based on the length of service.

The first plan is simple but often impractical, as coverage which might be deemed fair and reasonable in the case of one employee would be inadequate for another. The second plan is approved by some employers, as they consider that a man's salary indicates his economic value to the business. The third, and probably the best, plan is that under which the amount of coverage is determined by the length of the employee's service. This method can with advantage be combined with the second plan, and both length of service and annual salary be used as the formula by which to compute the individual insurance.

Generally speaking, group insurance is only a partial protection of a family —enabling them to carry on for a year or so after the death of the breadwinner, that is until other permanent plans can be made. Accordingly, the full individual needs of family protection have to be adjusted by other coverage suited to particular cases.

It is usual under the salary basis to form a special class for officials or high-salaried employees. One method which has been used in this connection is to grant to the members of this special and more expensive class protection under which the maximum amount to any one person is limited say to $3,000 or $5,000. It is naturally assumed that men earning these larger incomes are educated in habits of thrift and carry additional life insurance on their own behalf through other sources, as indeed all thrifty workers should. In determining the amount of individual insurance by length of service, the coverage usually commences at about $250 or $500 for those employees who have served less than six months or a year, increasing by graded steps to a maximum of perhaps $3,000 after about ten or fifteen years' service.

The Policy Contract

Under group insurance a "Master Policy" is issued by the insuring company to the employer, while Certificates of Insurance containing briefly the terms of the insurance are issued to each of the insured employees. The important provisions which obtain under the ordinary life insurance policy are included in the Group Policy. The provisions usually included in the contract (and legally required under the New York Insurance Laws) are as follows:

1—An incontestable clause protecting the policyholder against contest of claim after a period of not more than two years from date;

2—For suitable adjustment in case of misstatement of age;

3—Policy and application to constitute the entire contract between the parties; also statements made by employer or individual employees in the absence of fraud to be deemed representations and not warranties;

4—For issuance of individual certificates to employees, stating prin-

(*Please turn to page* 618)

BYFI Recommends

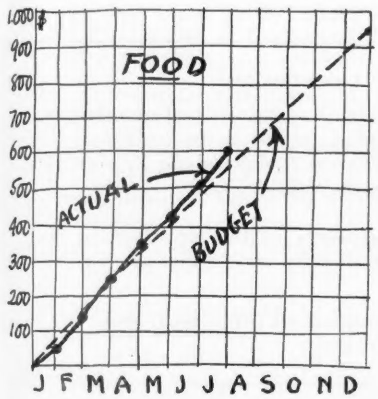
	Approx. Price	Yield
Bonds **with a high factor of safety, ready marketability and good collateral value:**		
N. Y. Telephone Co. ref. 6s Ser. "A" '41	108⅝	5.2%
Del. & Hudson 15-year 5½s '37	105½	5.1
Bethlehem Steel 1st guar. 5s '42	101	4.9
N. Y. Cent. & Hud. River deb. 4s '34	95⅝	4.6
Bonds **with a good factor of safety, fair income, good marketability and collateral value:**		
American Sugar Ref., 15-year ref. 6s '37	104	5.5
Anaconda Copper 1st 6s '53	104	5.7
Cuba Railroad 1st 5s, '52	95½	5.3
U. S. Rubber 1st 5s '47	93¼	5.5
Preferred stocks **with ample security, a liberal income return and some possibility of enhancement in value:**		
Brooklyn-Manhattan Transit Pfd. ($6)	85	7.1
U. S. Smelting & Refining preferred ($3½)	50	7.0
Schulte Retail Store preferred ($8)	117	6.9
Willys-Overland preferred ($7)	95½	7.3

Note: Famous Players Pfd., originally recommended at 115 has been removed from above list and substituted by Brooklyn-Manhattan Tr. Pfd.

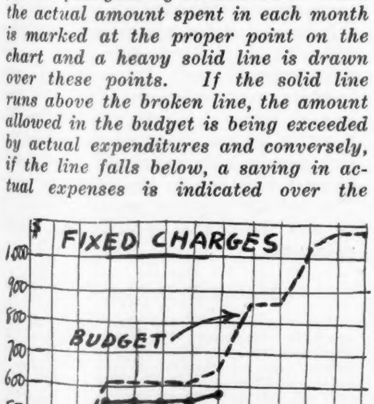
Graphic Records of Budget Expenditures

A New Plan for Keeping Down Household Expenses to a Minimum

By H. L. WHITTEMORE



Budgets are like home-made radio sets, sometimes they work and sometimes they don't. Unfortunately, the technique of "trouble shooting" for budget defects is not so well known as the art of locating the squeak in the old receiving set. The charts shown on this page represent the basis of a new and useful method of finding out where the budget is not holding up. First, the full amount allowed in the budget is plotted for the full year by broken lines. Then the actual amount spent in each month is marked at the proper point on the chart and a heavy solid line is drawn over these points. If the solid line runs above the broken line, the amount allowed in the budget is being exceeded by actual expenditures and conversely, if the line falls below, a saving in actual expenses is indicated over the amount provided by the budget. Each item is treated separately, with only the most important ones being shown here. *Editor's Note.*



In order to be "up-to-date," and with the hope that it would lead to fortune, I, like many others, worked out a budget for my expenses a year or so ago. The results, at the end of the year, were not entirely satisfactory, because several items exceeded the appropriation and the balance on the "right side of the ledger" was less than the budget called for. The overdrafts were due to several causes. Some were real emergencies, others expenses which should have been provided for in a well regulated budget.

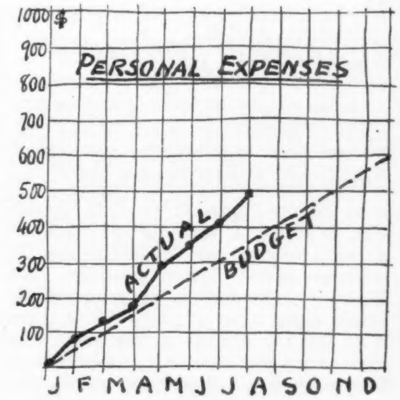
The budget for 1925 worked out something like this:

Fixed Charges—Including expenses such as insurance, etc.	$1,128.23
House Rent	780.00
Food and other household expenses	$900.00
Personal Expenses	600.00
House Repairs	91.77
Total	$3,500.00

Very early in the year it was evident that the actual expenses were not following the course outlined for them, and it was difficult without considerable computing to tell, as the months flew by, whether or not the total for an item showed improvement. Finally, in desperation, I plotted the charts shown here.

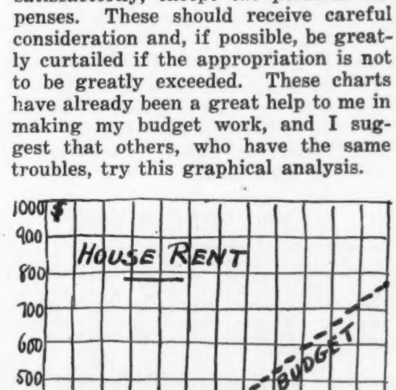
For simplicity, some items in the actual budget have been omitted and the amounts, also, changed so that this budget should not be taken as an exact model. It has been used to illustrate the use of charts in administrating a budget.

It will be noted that the total each month for fixed charges is less than the budget calls for, due to insurance dividends, etc. The total payments for the house are, on the other hand, exactly the budget amounts. There has been a slight, but consistent increase in the amounts paid for food and other household expenses. This shows that the budget was not sufficiently liberal for this item, and that it should be increased next year, unless, of course, there is a decrease during the last half of the year.



Personal expenses have, as "he who runs may read," been much over the budget because of unexpected accidents, travel, etc. The allowance for repairs to the house was, most of it, spent in January on metal weather strips for all the doors and windows.

A glance at these charts shows that all items of the budget have behaved satisfactorily, except the personal expenses. These should receive careful consideration and, if possible, be greatly curtailed if the appropriation is not to be greatly exceeded. These charts have already been a great help to me in making my budget work, and I suggest that others, who have the same troubles, try this graphical analysis.



SERVICE SECTION

ANSWERS TO INQUIRIES

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Are You Sure of Your Broker?

We invite correspondence from readers desirous of ascertaining the status of brokers with whom they intend to do business. We make no charge for this service, as we recognize the importance of having our readers deal through reliable firms.

Subscribers wishing to avail themselves of the privilege of the Inquiry Department should be guided by the following:

1. ***Be brief.***
2. ***Confine requests for an opinion to three securities.***
3. ***Write name and address plainly.***

AMERICAN SMELTING & REFINING

Can you give me any information in regard to current earnings of American Smelting & Refining? I have the 1925 figures, but have not seen any recent statements. Also please tell me how the company fares under the Mexican alien property law.—R. S. M., Trenton, N. J.

In the first quarter of 1926, American Smelting & Refining earned $5.25 a share net on the 609,980 shares of common stock. Later, earnings have shown a slight decline, but even on this lesser basis were at the rate of more than $20 per annum on the stock. In view of the fact that the bottom in lead prices appears to have been reached in this country and have already been bettered in Europe, it is probable that the first six months' earnings will be somewhere around $10 a share. The outlook is for a satisfactory showing in the last half of the year. Answering your second question, the enactment of the Mexican alien property law in nowise affects the company adversely. No retroactive features as interpreted by the government are visible and permission is given to hold mining properties acquired before 1917 as long as the company is in existence. Simple denouncement permits of the acquisition of new properties. With no serious bar to the progress of Smelters, and with the metal outlook fairly optimistic, this company should give an excellent account of itself in later months. The stock does not appear overvalued at current price levels.

CUBA CANE SUGAR

Will you please inform me if Cuba Cane Sugar Corporation is situated to operate at a profit with sugar prices the way they are today? I know that depressed conditions exist in the industry, but I have always been under the impression that this company's operating costs were very low. Do you consider its stocks attractive?—P. L'V. Paris, France.

Your question is best answered by a resume of 1925 results from operations of Cuba Cane Sugar. The company received an average price of 2.515 cents f.o.b. a pound. and made an operating profit of 0.333 cents a pound. Its output amounted to 4,273,766 bags, resulting in a net profit of $736,907, equal, after all deductions, to $1.47 a share on the 500,000 shares of preferred outstanding. With sugar now quoted at 2.437 cents a pound, its margin of profit has been reduced, but even on this low basis the company can keep out of red ink. However, it cannot do much more, and until sugar prices advance to around the 3.25 cent level earnings will hardly be sufficient to permit of dividends on the preferred. As we write, the outlook is very cloudy and although it is possible that higher prices will be seen in the fall, sufficient promise is not held forth upon which to base expectation of higher stock prices in the market, either for the common or the preferred. Our belief is that your funds could be employed to better advantage elsewhere.

PENN SEABOARD STEEL

It seems that almost every time I pick up a financial newspaper I find a notice therein to the effect that Penn Seaboard Steel is further increasing the number of common shares outstanding. I cannot see that the company has benefited very much from this procedure. In an ill-advised moment I bought 200 shares of this stock at a price I dislike to mention. I am very much discouraged and wonder if it would be worth while to hold on any longer.—L. E. M., Chicago, Ill.

On May 20, 1926, stockholders of Penn Seaboard Steel approved an increase in authorized capital stock from 3 millions to 3.5 millions. Proceeds from additional stock are to be used to augment working capital. Certainly, the company's finances have stood in urgent need of such improvement. The record of Penn Seaboard over a period of years has been far from satisfactory. Handicapped as it has been through ownership of a rather disjoined property, one failing to lend itself to economical operations, as well as lack of adequate working capital, it is not surprising that it has encountered extreme difficulty in making ends meet. An improvement, both in earnings and finances, was noted in 1925, but this was of minor proportions and hardly goes far toward changing the situation. Net loss in 1925 amounted to $82,412, against $329,803 in the previous year. The outlook appears unsatisfactory to us and the shares seem hardly worth retaining.

WILCOX OIL & GAS

Please give me all the information you have available concerning Wilcox Oil & Gas. My brother-in-law owns 100 shares of this stock and advised me to buy for a substantial rise in value. I know nothing about the company and will not take any action until I hear from you.—Miss J. C. McG., Boston, Mass.

The H. F. Wilcox Oil & Gas Company was originally incorporated in

(*Please turn to page* 596)

When Quick Service Is Required, Send Us a Prepaid Telegram and Instruct Us to Reply Collect

Mid-Year Review of Public Utilities

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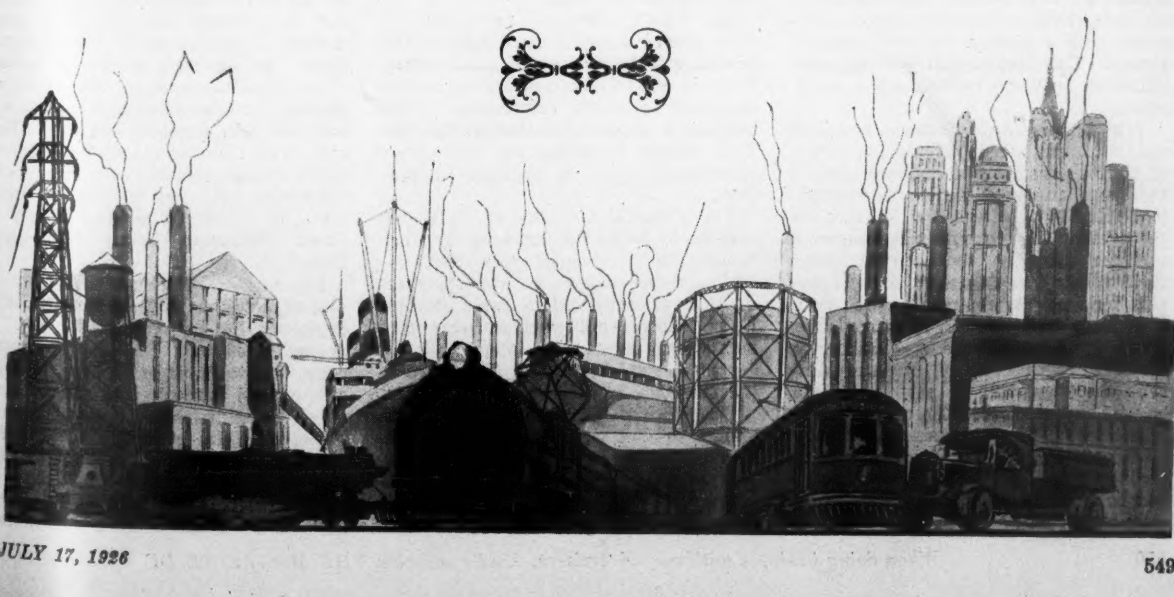


The Magazine of Wall Street Questionnaire Addressed to the Leading Public Utility Corporations of the United States

The Questions	*The Answers*		
1. Do you expect to do any considerable financing in the next two or three years?	Yes—85%	Yes, Modified, 7%	Indefinite—8%
2. If so, what proportion would be in bonds and what proportion in stocks?	More Bonds than stock—50% Indefinite—10%	Equal amounts—10% Subject to special conditions—10%	All stock—10% More stock than bonds—10%
3. Is it wise to reduce rates voluntarily in an epoch of declining costs?	Yes—82%	Sometimes—9%	Yes, but hard to raise rates again—9%
4. Will cost of operations go lower or higher?	Lower—71%	No great change 14%	Doubtful—15%
5. Will merger tendencies continue?	Yes—92%	No—8%	
6. Have the present holding companies pretty much exploited the advantages of large capital?	Yes—30%	No—60%	For the present, yes—10%
7. Could Federal regulation contribute anything that State regulation fails to effect?	No—75%	Perhaps in future 8%	No. modified—8% Yes, modified—9%
8. Would it not assist future Public Utility financing were many more utility securities listed on the New York Stock Exchange?	Yes—36% No—27%	Doubtful—18% For bonds only 10%	For larger groups only—9%

IN order that the American investor might have the first-hand opinion of the largest public utility corporations on problems of importance to him, THE MAGAZINE OF WALL STREET initiated one of the most significant questionnaires in this field. The general results are tabulated on this page. Certain great outlines are easily seen. Practically all public utilities expect to do additional financing. Actually, not one reported that it does not expect to do new financing. Bond financing remains a slight favorite over stock financing. It is notable that practically all the utilities favor reduction of rates along with reduction of operating expenses. This means that political complications will be reduced to a minimum.

The answers to Questions 5 and 6 should be compared. While fully 92% of the corporations interviewed regard the trend to concentration as continuing, fully 40% believe that at least for the present the economic advantages of such concentration have been exhausted. Evidently, a large number, then, regard this tendency as financial, apart from the purely economic advantages. While a great preponderance see nothing in Federal regulation, it is interesting that the viewpoint is not unanimous, as was expected when the questionnaire was begun. The divergence of opinion is more marked on the advantages of listing securities than on any other subject whatsoever.

Apart from the general replies, investors will be greatly interested in the viewpoint of some of the leading contributors. The *Byllesby Engineering & Management Corp.*, affiliated with Standard Gas & Electric, for example, believe that even if commodity prices decline operating costs will decline very slowly. Although costs may decline owing to efficiency, yet the gains will not be spectacular. In their estimation, the time may come, in the distant future, when Federal regulation may become significant. Smaller and isolated companies have little to gain from listing securities.

The *Public Service Corporation of New Jersey* expects two-thirds of its financing to be by way of stock issues. They do not believe that listing assists financing of utility companies. This company's shares are listed on the New York Stock Exchange, so that their observation here is specially important.

The *Consolidated Gas of Baltimore* expects to do all its financing by stock issues. In accordance with their recent actions they favor voluntary reduction of rates when costs decline. They believe that present large consolidations have done about all the economic good they can. Nevertheless, the tendency to mergers will continue.

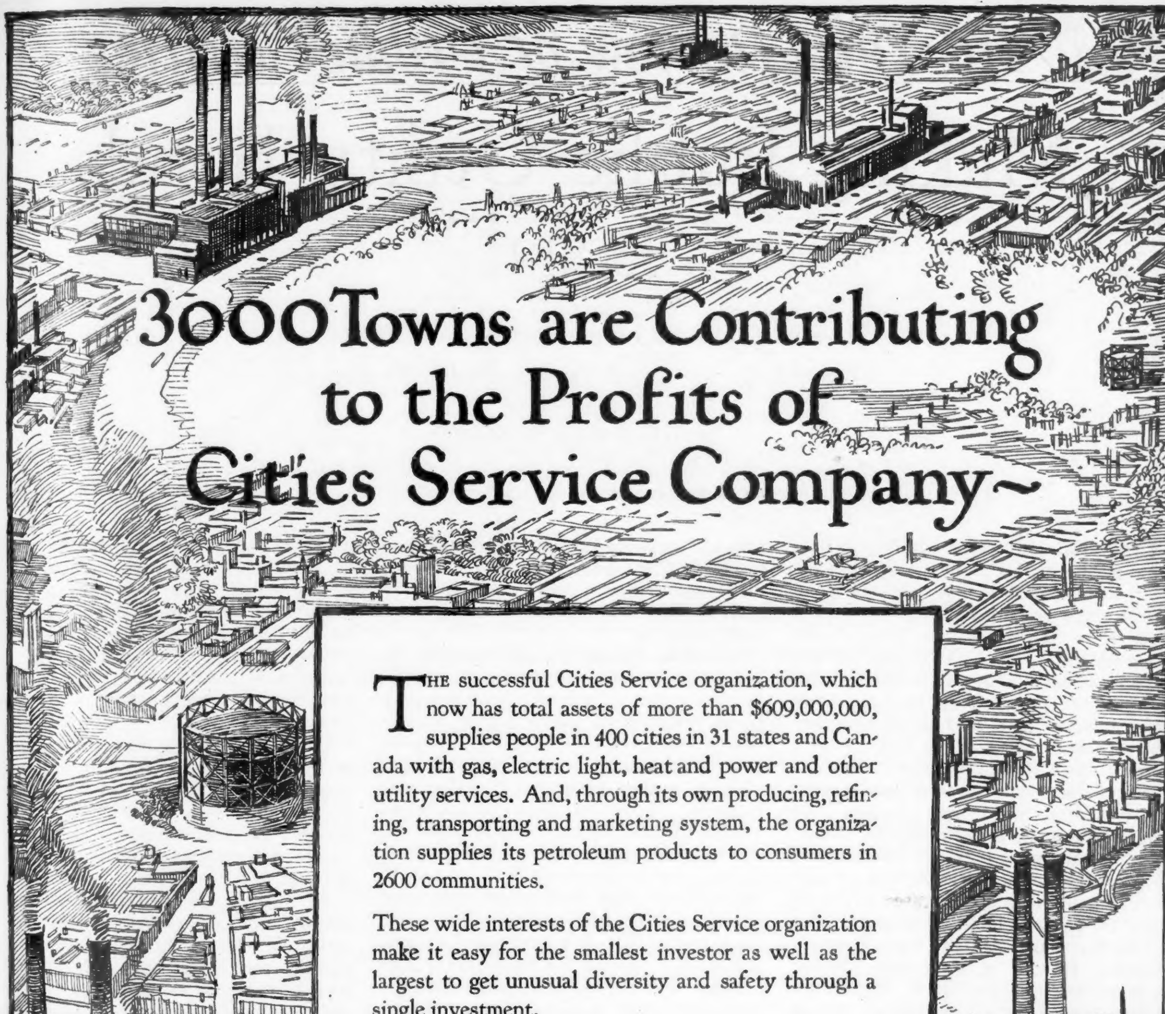
The *United Gas Improvement Co.* cannot predict whether costs of operation will go lower or higher. They expect to do financing but have no definite expectations as to character of securities to be issued. They feel that bonds rather than stocks are assisted by listing.

The Federal Light & Traction Company expects to have three-fourths of its financing done by bonds. It believes that the economic advantages of large consolidations have pretty much been exploited. This view is unusual from a large holding company. Listing on the New York Stock Exchange is helpful to future financing, it holds.

Pacific Gas & Electric expects its future financing to be evenly divided between stocks and bonds. Rates should be reduced if profits are disproportionate to invested capital. No great change is anticipated in cost of operations. A digestive period is needed, if economic advantages are to accrue further to consolidations. Mergers, however, will probably continue. Federal regulation can confer no advantages, except, possibly to put interstate companies on a par with state companies. It is doubtful whether New York Stock Exchange listing will assist financing.

The National Public Service Corporation expects that 60% of its anticipated financing will be by way of bonds. It is undecided as to whether operating costs will go lower or higher. Mergers still remain advantageous and will continue. Listing should assist financing.

Not only the general aspects of the questionnaire, but these specific examples show how rich in usefulness to the investor is the information which the Public Utilities have volunteered.


3000 Towns are Contributing to the Profits of Cities Service Company~
THE successful Cities Service organization, which now has total assets of more than $609,000,000, supplies people in 400 cities in 31 states and Canada with gas, electric light, heat and power and other utility services. And, through its own producing, refining, transporting and marketing system, the organization supplies its petroleum products to consumers in 2600 communities.
These wide interests of the Cities Service organization make it easy for the smallest investor as well as the largest to get unusual diversity and safety through a single investment.
During the past 10 years, net earnings of Cities Service Company have increased more than 300%. In 1915 the Company's net earnings were $4,306,944; in 1925 it earned, net, $18,989,071.
Careful investors, including banks, insurance companies, etc. have studied the growth and earnings record of the Cities Service organization, with the result that its investment securities are owned today by more than 235,000 people.
Send for Cities Service Investment Circular CB-18
Henry L. Doherty & Company
60 WALL ST. NEW YORK
BRANCHES IN PRINCIPAL CITIES

Making Public Utility Bonds "Legal"

Massachusetts and New Jersey Join Procession —Setback in New York Only Temporary

By JOHN BALCH BLOOD

Economist of the Research Bureau for Public Utility Securities, Sponsored by Savings Banks and Trustee Interests.

THE reliability and stability of the public utility industry has brought its securities into consideration for savings bank investment. In 1926 bills were introduced in New York, Massachusetts and New Jersey for the purpose of legalizing public utilities for investments for savings banks. They were enacted into law in New Jersey and Massachusetts. The bill in New York state failed of passage. In Connecticut last year an act was passed accomplishing the same results. In Maine there have been certain public utilities that were legal for investment; in Massachusetts the securities of certain utilities within the state have been legal for savings bank investment. The act in Massachusetts and the bill which failed in New York state were similar in character and similar to the act already passed in Connecticut. These provide in substance that the utility must be incorporated under the laws of the United States, or any of the several states, must be subject to the supervision of a public service of other regulatory commission, must be engaged in the sale and distribution of electricity or gas, and must be doing at least 80% of its business within the territorial limits of the United States. Its franchise must cover at least 75% of its gross income and run three years beyond the maturity of bonds. The funded debt must not be over 60% of total investment, nor exceed 60% of actual book value of fixed property.

Gross revenues of the properties must not be less than a million dollars per year and net earnings for the last five years must not be less than twice the interest charges. The bonds must be under a closed underlying mortgage secured by property owned and operated by the corporation or an open mortgage with a provision that additional bonds be issued for an amount not to exceed 75% of actual costs, or a refunding mortgage providing for the retirement of all prior liens. Amount of public utility securities which can be purchased by an individual bank is limited to 15% total or 2% in any one public utility corporation. The New York bill which failed of passage had an additional provision that in order to purchase public utility securities a bank must have at least 50% of its assets in mortgages on real property.

The New Jersey act while simpler in provision is more stringent in result. It allows 20% of a bank's total deposits to be invested in public utility securities. It requires 85% of the gross operating revenues to be derived from gas, electric, water, telephone or telegraph utilities. It provides that the mortgage shall be a lien on fixed assets and that the outstanding amount of bonds shall not exceed two-thirds of book value. It further provides that gross operating revenues shall have averaged not less than two million five hundred thousand dollars per annum for three years and further that the net operating revenues for three years shall have been not less than two and one-half times the average requirement for interest charges. The New Jersey specifications, by requiring larger gross operating revenues and greater ratio of net earnings to interest requirements, restricts the number of bonds that would qualify and this restriction is very considerable in amount. There will be a great many bonds of high character that will not qualify under the provisions of the states already enacted. The Massachusetts act just passed excludes bonds having a maturity greater than thirty years from date of investment.

Scope of the Market

There are approximately six hundred mutual savings banks in the United States, having invested funds well over seven and one-half billion dollars. Of these deposits, New York state has about three and one-half billions, Massachusetts about one and three-quarters billions, Connecticut one-half billion and New Jersey something greater than two hundred millions of dollars. The Massachusetts act of this year would allow an investment of something like two hundred and forty millions of dollars. The possibilities of investment in New York state on the same basis would be over one-half billion dollars. There are probably now six billion dollars' worth of bonds issued against public utilities exclusive of street railways, which amount is being augmented each year by not less than 10%, or six hundred million dollars. The extension of the use of public utility gas, electricity and telephone is considerably greater than 10% per year.

There is a large market for public utilities investment in the insurance companies and fiduciaries representing foundations, religious and educational funds. In some states insurance reserves are restricted similarly to savings bank investments.

In such states where trust funds, institutional commitments and insurance reserves are subject to statute direction for investment, the sums released by any laws similar to those enacted and proposed for savings banks might well rival the savings banks in scope and amount of utilities investment. Harvard University is typical: its public utility investments have been a larger and larger section of its total commitments. With the increasing endowments of universities and hospitals, growing at a rate faster than that of population, the institutional market attains greater and greater significance. In addition the admission of Public Utility to the list of legals gives them a "trustee" background, which will classify them with the best railroad bonds, thus enabling the price of both groups of quality bonds to be similar, instead of separated by a small, but nevertheless noticeable spread as is the case today. This in turn will assist future financing by increasing the facility with which meritorious new issues may be distributed.

There is no valid reason why older criteria of investments, which were enacted into law when public utilities were but a shadow of what they are today, should restrict the scope of savings bank investment today. Certainly in these days of low yields, if the present rate of interest allowed to mutual savings banks depositors is to be continued, the banks will require the widest possible scope of safe investment.

THE MAGAZINE OF WALL STREET'S
Mid-Year Review of Public Utilities

What Public Utility Development Owes the Holding Company

Various Types of Holding Companies in the Utility Field and Their Functions

By O. T. ENRIGHT

"A thing leading us to a new activity, which stands out and of which account is not taken generally, is the element of romance in business. For us there must be something alluring in the enterprise."

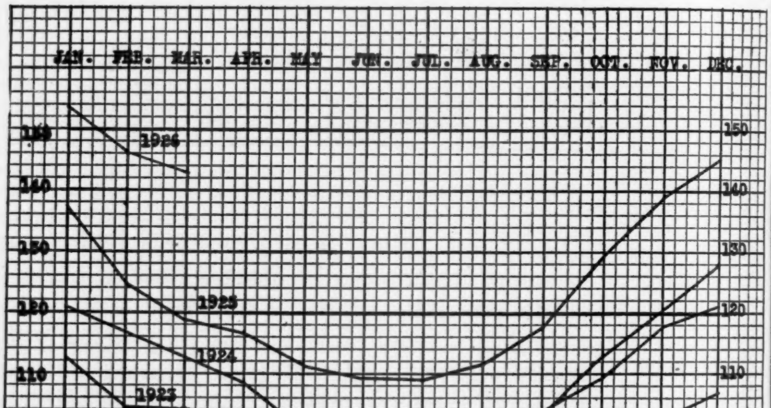
FRANKLIN K. LANE.

WE are all familiar with the story of the public utilities: of the early inventive and experimental days; of the hardships and inertia of the public overcome; of their gradual expansion at first and their phenomenal development of the last decade, until today they are the *sine qua non* of modern social life and industry. We are told that the public utilities of our own country have a value of no less than forty-six billions of dollars,—or thirteen per cent of the nation's wealth. Yet it is only the beginning, for conservative analyses have recently shown that the country is only ten per cent electrified, and it has been estimated that the gas industry reaches a percentage only slightly above that.

In the past five years we have been hearing a great deal about holding companies in the public utility field. The exceedingly rapid spread of the principle of centralized control or management in recent years has made the subject one of national discussion. But the theory or idea is not new. It is co-existent with the business and certainly may be dated from the commencement of the period of their substantial growth,—say the last half-century. Among the older holding companies may be mentioned the Philadelphia Company, incorporated in 1884; the United Gas Improvement Company, 1888, and The North American Company, 1890.

General usage of the term "public utilities" connotes electric, gas, street railway, water, telephone and heating utilities. Broadly, they also include the railroads, express companies and other common carriers. Statute law in some states brings other services within the scope,—such as ice utilities, stockyards, cotton gin-mills, etc.

It is only when the public comes to realize fully the economic reasons for the consolidation of utility properties,



Monthly Gross Revenue Sales of Electric Energy by Central Stations in United States
(IN MILLIONS OF DOLLARS)

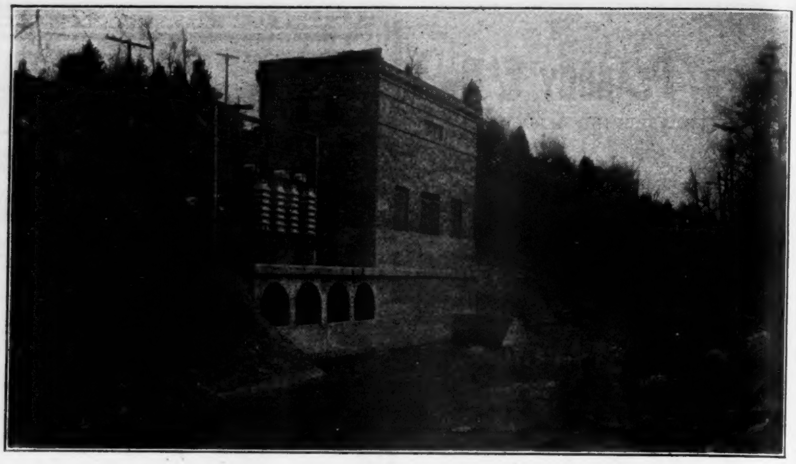
with the attendant benefits, that they will see that it is but the law of averages in the application of the principle of large volume and diversification to various risks to stabilize results. The low costs and reliable service made possible through mass production permit the accrual of the benefits to the numerous communities included within the

(*Please turn to page* 558)

Major Holding (Corporate) Public Utility Companies

	Gross Operating Revenue	Communities Served	Total Customers	Electric Customers	Gas Customers	Electric Generating Capacity	Electric Production	Manufactured Gas Sales	Electric Railway Passengers
	(Millions)					(Kilowatts)	(Million KW-HR)	(Million Cu. Ft.)	(Thousands)
1 Consolidated Gas Co. N. Y.	$134.3	....	2,108,658	1,044,377	1,064,281	870,920	2,263	41,722	......
2 Public Service Corp. N. J.	94.7	239	1,291,277	616,013	675,264	380,417	1,358	20,294	416,788
3 North American Co.	93.0	500	924,303	845,323	77,215	1,301,040	3,207	2,995	186,706
4 Standard Gas & El. Co.	66.9	1,040	1,011,779	*509,400	330,831	780,316	1,917	26,112	......
5 Philadelphia Co.	60.5	200	392,825	226,311	166,514	324,900	s1,057	27,397	280,934
6 Middle West Utilities Co.	54.6	1,458	848,074	637,696	162,198	578,000	1,498	9,432	35,665
7 American Gas & El. Co.	52.1	631	......	402,953	......	789,325	2,243	....	......
8 American Power & Lt. Co.	50.5	536	622,877	341,773	281,104	506,927	1,657	3,892	20,239
9 Cities Service Pr. & Lt. Co.	49.7	350	472,322	344,099	128,223	508,277	s1,213	8,067	76,165
10 Electric Power & Lt. Co.	44.6	411	408,600	322,700	*65,419	*388,102	*1,250	*2,880	*241,933
11 Commonwealth Power Corp.	44.2	375	550,705	391,960	158,745	565,878	1,277	*4,338	*23,593
12 American W. W. & El. Co.	41.0	1,056	500,000	188,000	*9,358	392,000	1,316	1,732	95,359
13 United Light & Power Co.	39.0	318	......	*58,482	......	*370,000	*s197	*2,320	*27,143
14 American Lt. & Tr. Co.	35.6	....	750,550	115,528	635,022	......	s149	32,758	29,597
15 Columbia Gas & El. Co.	33.5	....	530,659	236,497	294,162	*139,500	735	....	......
16 Lehigh Power Sec. Co.	33.3	446	*184,498	*148,562	*35,387	*195,907	*667	*1,059	*75,556
17 North American Pr. & Lt. Co.	32.2	520	356,440	266,893	89,547	278,322	609	4,002	55,073
18 National Power & Lt. Co.	31.8	191	*212,933	*158,463	54,470	*158,550	*577	*2,927	*163,577
19 Buffalo, N. & E. Pr. Corp.	25.2	....	400,000	......	......	725,000	....	....	......
20 Associated Gas & El. Co.	24.8	1,000	335,441	270,734	34,000	*112,000	s495	*515	......
21 Continental Gas & El. Co.	23.8	*200	*230,000	......	......	*262,000	*s596	....	......
22 Engineers Pub. Ser. Co.	23.1	....	......	......	......	205,890	492	738	......
23 General Gas & El. Co.	20.9	570	206,000	168,000	36,000	245,000	576	1,006	47,319
24 National Pub. Ser. Co.	19.8	....	*159,241	*131,622	*27,619	*146,220	*237	*967	*73,547
25 Southeastern Pr. & Lt. Co.	17.7	....	*40,815	*40,815	......	339,420	1,196	....	......
26 Midland Utilities Co.	17.6	194	225,383	81,747	140,667	77,580	320	7,516	42,882
27 National Elec. Pr. Co.	15.0	442	170,573	155,575	13,781	146,965	425	431	22,612
28 United Gas & El. Corp.	14.2	....	......	......	......	......	....	....	......
29 American El. Pr. Co.	13.7	....	......	......	......	......	....	....	......
30 American Gas Co.	11.8	126	*178,088	*74,397	*103,231	*106,240	200	3,642	......
31 Republic Ry. & Lt. Co.	11.3	72	......	76,298	......	144,885	406	35	41,854
32 Mohawk Valley Co.	10.4	....	......	......	......	......	....	....	......
33 United Gas Improvement Co.	9.9	....	......	......	......	......	....	16,821	......
34 American Public Ut. Co.	*7.7	....	......	......	......	......	....	....	......
35 Utilities Pr. & Lt. Co.	7.6	*300	......	......	......	......	*64	*225	*11,375
36 American & For. Pr. Co.	7.8	87	*110,264	*88,285	....	*41,521	*67	....	*19,113
37 Federal Lt. & Tr. Co.	5.9	....	......	*50,759	......	......	s*89	*1,245	*11,771
38 International Util. Co.	5.8	*53	42,868	12,322	30,546	11,750	41	4,143N	8,804
39 American Pub. Ser. Co.	4.9	*106	......	*34,571	......	......	....	....	......
40 Central Gas & El. Co.	2.4	....	39,399	25,508	9,840	19,705	35	....	......

*Figures of 1924. s—Sales. N—Natural gas.



Automatic Hydro-Electric Station of The Adirondack Power & Light Co. in Sprite Creek

(*Continued from page* 554)
grouping. Where the small town formerly had a small plant with overloaded conditions, which was able to give limited night service only, the new unified service is for the full twenty-four hours and dependable at all times. Not only are the benefits in the service, but rates are so adjusted as to allow the maximum use by the customers and permit of economic industrial community growth.

Consolidation of public utilities may take place in two ways,— corporate and physical. The second invariably follows in cases where the first has taken place,—providing the properties are contiguous and can be economically connected. Also, many examples of interconnection of pooling of power of different utilities have been effected, but this does not involve or require identity of corporate interest.

Grouping or interconnection of electric properties has brought to the fore the question of superpower,—a word now in current usage. It was made possible principally through the development of transmission by alternating-current, first in practical use by William Stanley in Great Barrington in 1886.

Advantages readily apparent in the holding company principle are: capital is obtained on more advantageous terms than would be possible to the independent companies; the utilities are, as a rule, more fully extended and adjusted to meet service demands, are better maintained, more efficiently operated, have a larger amount of business than the separate independent companies; and the facilities of the holding company, such as engineering, management, operating, etc., are of a character practically unobtainable, except at great expense, by the local separated companies.

The main criticisms against the holding company principle have been leveled at the financial or corporate part. It has been claimed that excessive returns are made possible through the creating of corporate structures out of all proportion to the capitalization of the properties included, and that the identity of companies is ofttimes lost through the maze of pyramiding intermediate holding companies.

As to the former feature,—that of excessive return—the regulation of rates by the many state public service commissions, under practically all of the statutes, provides that the public utility —that is, the operating utility—shall be permitted to earn a reasonable return on the present value of the property. In other words, regulation at the source prevents the gathering of any return based on other than the actual value of the property. With respect to the creation of intermediate holding companies it is pertinent to point out that in the isolated cases where this has occurred the matter is speedily corrected by the regulating commissions, as may be instanced by two recent opinions in New York State.

What brought about the holding companies? Undoubtedly they came into being through the concept of the public utility as best equipped to serve the public when operated as a natural monopoly,—with unified operation whereby waste, duplication and the depleting competitive warfare can be avoided, with the advantages of labor-saving, capital-conserving and modernizing of the service.

The earliest case of the practical application of this economic truth was in Milwaukee in 1890, when Henry Villard, then President of The North American Company, united all of the competing street railway companies and electric light and power companies. It was the first time in the country that the electric light and power and street railway operation had been supplied from a single central station system.

Gradually the idea of unification spread, systems being consolidated first in the large cities and more recently throughout the interurban and rural territories. Under the fostering development of the holding companies the electric light and power industry changed from a local to a national one, serving a multitude of communities, large and small, and ultimately will extend to nearly all of the farms.

(*Please turn to page* 560)

(*Continued from page* 558)

The great impetus in concentration of control of the public utilities in the last five years is but natural, for in looking at the data we find that it is coincident with the greatest growth in the utilities. The electric industry alone has furnished us as much energy in the seven years 1919-1925, as we used in the first 36 years of the industry's existence, 1882-1918.

The types of holding companies may be seen by consideration of their functions. There are investment, management, engineering, supervision, financing, and combined operating and holding companies.

The investment companies have become quite numerous in recent years, having been developed to acquire interests in the various public utility stocks for investment purposes solely. Rarely do they own control of any companies in which they are interested,—but usually their investments are limited to a small percentage of any one utility. For example the American Superpower Company limits its investment in any one company to 15 per cent of the outstanding common stock of such company. Other companies of the investment type are the North American Utility Securities Co., Electric Investors, etc.

A securities type of companies has appeared in recent years, being organized to handle the distribution of securities of certain companies. They do not exercise control or management of the utility companies. Companies of this type are the Hodenpyl Hardy Securities Co., The Columbia Securities Co. the North American Securities Co., the Associated Gas & Electric Securities Co., Public Service, Stock & Bond Co., etc. Companies of this character are not to be classified as holding companies.

One of the most important phases in the development of the public utilities has been the part played by the management and engineering companies. The expert engineering knowledge these companies afford have been a great factor in placing the utilities at the fore. Not only have they acted as construction engineers for electric light and power plants, electric railways, gas and other public utility properties but they have been management agents over the properties with a consequent exceptionally high degree of efficiency and service of the utilities thus operated. Prominent among such companies may be mentioned Stone & Webster, Inc., the J. G. White Management Corp., and its associated engineering company, Day & Zimmerman, Inc., Byllesby Engineering & Management Corp., Charles H. Tenney & Co., United Gas & Electric Engineering Corp., etc.

The corporate holding companies, which either control, manage and operate, or supervise public utility properties, have been tabulated and listed in the order of their combined gross revenues as obtained from their published reports. (See Table I.) In all there are said to be about 150 public utility holding companies, although many of these are quite small and control or manage single properties or small groups of properties.

In the electric field The North American Company ranks first in extent of power plant capacity and energy production, having had an output of more than three billion kilowatt-hours in 1925,—or more than four and one-quarter billion kw-hr. had the full year been taken for properties acquired during 1925. The industrial nature of the load of this company is indicated from the fact that the Consolidated Gas Company has many more electric customers but a lesser energy production.

In the manufactured gas field the Consolidated Gas Company easily ranks first with total sales in 1925 of nearly forty-two billion cubic feet. This company also leads in the number of gas customers. In sales it is followed in order by the American Light & Traction Co., the Philadelphia Co., the Standard Gas & Electric Co. and the United Gas Improvement Co.

In the electric street railway field the Public Service • Corporation of New Jersey stands well at the front, having transported no less than 416 million passengers during 1925. This company has entered the bus transportation field and during 1925 handled a total of 146 million passengers, against 69 million in 1924. In 1925 bus passengers

Extent of Holding Company Control of Major Electric Companies, with Output in 1925 of Over 100 Million Kilowatt-Hours

Companies with Output of	Operating Companies (Not Under Holding Company Control)		Companies Controlled by Holding Companies	
	Number of Companies	Output in Million-kw-hr	Number of Companies	Output in Million-kw-hr
Over one billion kw-hr............	8	15,917	6	8,338
500 to 1,000 million kw-hr........	6	3,793	17	12,403
400 to 499 million kw-hr..........	1	421	2	852
300 to 399 million kw-hr..........	1	318	9	3,028
200 to 299 million kw-hr..........	4	1,068	15	3,661
100 to 199 million kw-hr..........	5	844	30	4,594
Total	25	22,361	79	32,756
Per cent of total..............	24.0	40.5	76.0	59.5

amounted to 26% of total passengers carried, against 14% in 1924.

Changes are rapidly occurring in the status of holding companies and revisions are constantly required in any statistics compiled for this group of companies. The table referred to has been compiled as of December 31, 1925 in order to afford comparative statistics, rather than to take more recent quarterly published statements. The outstanding change since the first of the year is the consolidation of the properties of the Standard Gas & Electric Company and the Philadelphia Company, which would give these combined properties an approximate gross revenue of $137,000,000. The Electric Bond & Share Company is known as a supervision company and does not own control of the companies in which it is interested. It performs engineering, financial and management services for these companies and for one company, the American Gas & Electric Company, does the financing only.

Ramifications of American Telephone System

It is in the telephone industry that the idea of a single and unified program of operation founded on universal service finds fullest example. The holding company, The American Telephone & Telegraph Company, in many aspects the largest corporation in the world, controls a national telephone service through its subsidiaries doing about 97 per cent of the total business and, in addition, has lines to some 9,200 small connecting companies.

This company is not simply a holding company, but, as do those in the electric and gas field, performs additional functions. It does the financing for all the companies; furnishes the engineering, operating and other experts; maintains a productive and protective organization as far as patents are concerned; maintains an immense staff engaged in constant research,—with a program looking twenty years into the future; looks after public relations of the subsidiaries. In short, it performs all that service which is common to all, leaving to the local companies the local management.

The gross operating revenues of the Bell System which is not included in Table I, in 1925 amounted to 741 million dollars, and the system on December 31, 1925, has a total of 12,035,224 customers.

Large Investments Required in Public Utility Industry

It is not to be expected that efficiencies resulting from physical connection and large grouping of electric properties may be translated immediately into reduced rates. It must be remembered that large investments in transmission and distribution lines and in the construction of large power plants is required, on which the full return may not be anticipated for some time. It requires about five dollars of investment for every dollar of gross revenue of the electric companies, a rate of turnover far slower than the average industrial company. In addition, there is the important question of load factor.

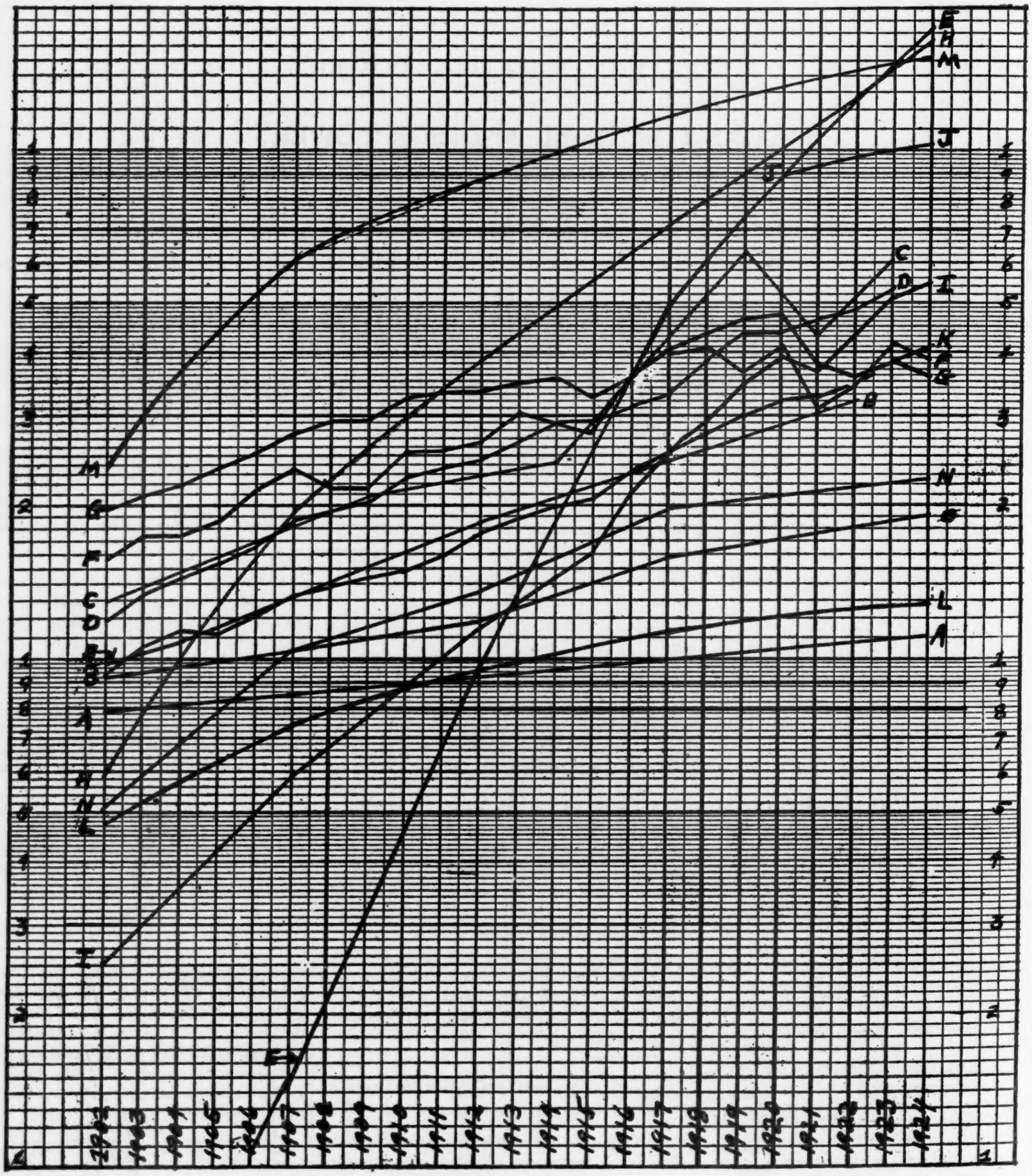
It is to the farmer that the benefits of advantages from groupings of electric companies will fall with greatest favor. The small local utility is not disposed to construct radiating lines to rural customers of doubtful profit but prefers to remain within the confines of its more highly concentrated urban territory. It is with the connection of city and city, and plant and plant, that the centralized company rears its network of transmission lines spreading throughout the rural territories making possible the furnishing of energy to the farmers along and near such lines. Only three per cent of the farms are electrified at present but the near future should witness a tremendous stride in this activity owing to the great amount of rural electrification now under way.

Centralization of control and management of the public utilities has, without any doubt, been one of the major factors in the increased industrial productivity in the United States in recent years. The increase of 33 per cent in volume of production in 1923 over 1913 was due principally to the fact that each worker had 16 per cent more installed primary power at his use.

The Quarter Century Growth of the Public Agencies, Contrasted With Other Important National Factors

Drawn to Ratio Scale to indicate Comparative Rate of Growth.

Figures are from U. S. Census Reports and other authoritative sources.



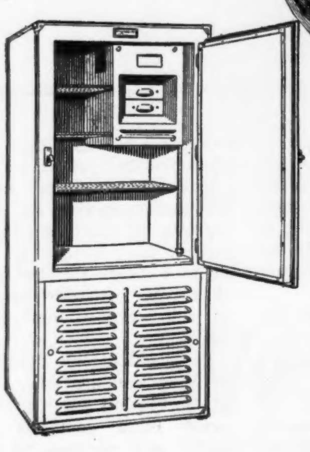
	Initial Point		Latest Figures	
A—Population (mid-year)...	1902	79,365,396	1924	112,078,611
B—National Wealth........	1904	$107,104,000,000	1923	$320,804,000,000
C—Value of Manufactures...	1904	$14,794,000,000	1923	$60,556,000,000
D—U. S. Postal Revenue....	1902	$121,848,000	1924	$572,949,000
E—Automobile Registration..	1902	28,755	1924	17,591,981
F—Railroad Freight Ton-Miles	1902	157,289,000,000	1924	388,111,000,000
G—Railroad Passenger-Miles..	1902	19,690,000,000	1924	36,070,000,000
H—Electric Customers.......	1902	584,000	1924	16,566,604
I—Electrical Output, Kw-hr..	1902	2,507,000,000	1924	54,413,000,000
J—Gas Customers...........	1920	8,837,000	1925	10,603,000
K—Gas Sales—Cubic Feet...	1902	92,714,000,000	1924	405,344,000,000
L—Electric Railway Passengers	1902	4,774,212,000	1924	13,000,000,000
M—Telephone Customers.....	1902	2,371,044	1922	14,374,395
N—Telephone Originating Calls	1902	5,070,555,000	1922	21,901,387,000
O—Telegraph Messages......	1902	91,655,287	1922	191,121,333

Years chosen above are the nearest to beginning and end of the quarter-century for which authentic figures are available.

now

200,000 Frigidaires

This modern "ice man" calls once—with Frigidaire—and the ice stays always



The new metal cabinet Frigidaires are priced as low as $245; Frigidaire mechanical units for installation in standard makes of iceboxes are priced as low as $190. Prices f. o. b. Dayton, Ohio. Any Frigidaire may be bought on the GMAC deferred payment plan.

TWO hundred thousand Frigidaires are now providing the convenience and economy of electric refrigeration tothe homes and stores of America. A careful analysis of Frigidaire value, from the standpoint of construction, finish, capacity, efficiency and economy, reveals at once the reasons why Delco-Light Company, Dayton, Ohio, subsidiary of General Motors Corporation, is the world's largest builder of electric refrigerators.

DELCO-LIGHT COMPANY, Dayton, Ohio
Subsidiary of General Motors Corporation

The 3R's of the Public Utilities—Rates, Regulation and Return

By CARL D. JACKSON

Mr. Jackson is counsel for the National Electric Light Association and American Gas Association. He is the former president of the National Association of Railway and Utilities Commissioners and the Wisconsin Railroad Commission.

The Commercial Birth of the Public Utilities
Some Interesting Historical Dates

Water Supply	
Philadelphia Water Works	Jan. 27, 1801
Gas Supply	
London & Westminster Gas Light & Coke Co	April, 1812
Gas Light Co. of Baltimore	1816
Steam Railroads	
Stockton & Darlington Ry. (Stephenson, England)	Sept. 26, 1825
Baltimore & Ohio R. R. Ellicott's Mill	May 22, 1830
Telegraph	
Morse—Baltimore to Washington	May 24, 1844
Magnetic Telegraph Co. New York to Philadelphia	May 15, 1845
Electric Telegraph Co. (England)	1846
Telephone	
Bell—109 Court St., Boston	March 10, 1876
Boston to Somerville	April 4, 1877
Bell Telephone Association (Unincorporated)	May, 1877
Electric Supply	
Steam Plant—Edison Electric Illuminating Co. of New York, 257 Pearl St., New York	Sept. 4, 1882
Hydro Plant—Appleton (Wis.) Electric Co	Sept. 30, 1882
Electric Railway	
Cleveland—(Bentley & Knight. Slot conduit)	July 31, 1884
Richmond, Va. (Sprague. Trolley)	May 4, 1888
FIRST REGULATING COMMISSIONS	
Railroad	
Rhode Island	June, 1839
New Hampshire	Dec., 1844
Interstate Commerce Commission	1887
Electric Light and Gas	
Massachusetts	June 11, 1885
Modern Public Service Commissions	
New York	June 6, 1907
Wisconsin	July 9, 1907

MOST of us think of our modern institutions as something which we have invented, and yet, in almost all instances it will be found that they are really not inventions at all but a development through generations. The exact language of some of the phrases in our Constitution will be found in the Latin of King John's Magna Charta. The institution of commission regulation of utilities was not an invention—it was a development. Its principles in the English Law will be found in the musty legal records of the Common Law courts of England, centuries old; and regulatory commissions in the United States, in somewhat their present form, go back nearly a century in our own history.

The first board of Railroad Commissioners of Rhode Island was established in June 1839, and in December, 1844, New Hampshire created a Board of Railroad Commissioners appointed by the Governor with the advice of the Council with supervisory power over railroad corporations. Massachusetts had a commission in 1864, and in many states commissions were established over half a century ago. Many were created in the seventies and at subsequent dates and related to common carriers, but state commissions in their present form and with their extended powers over service and rates of utilities as distinguished from railroads find their model in the laws of New York and Wisconsin passed in 1907. The commissions so created were not inventions or new institutions in principle but merely the natural outgrowth of the law and history of development.

The extraordinary growth of utility service in the last generation has been coincident with the acceptance and growth of commission regulation. Whatever question may have existed in the past, either as to the wisdom or necessity for such regulation, has now generally disappeared, but it is no exaggeration to say that for a considerable period it met with strong opposition from those who questioned whether that regulation would not take such form as to stifle the industries which it was established to regulate. Final judgment in respect to this, as in respect to other similar matters, rests in the end with experience and results, and the verdict, it seems to me, is clearly favorable to the continuance of state commission regulation.

It would be idle to deny that at the time of the establishment of our present commissions, some of these commissions, being comparatively new, were unfamiliar with the economics of the utility business. Furthermore, some of the commissions came into office with the popular misunderstanding that then existed that the chief function of utility regulation was the reduction of rates, not the establishment of adequate service and reasonable rates. This one-sided attitude, however, rapidly disappeared as commissions came to understand the problems which they must meet and their responsibility to all concerned. With regulation also there came a more vivid understanding on the part of the utilities of their responsibilities to the public, and it may be said, certainly as to a large number of our utilities, that their attitude toward the public in this respect has changed for the better.

No institutions flourish successfully without cooperation. The institution of regulation for its complete success must have complete acceptance in spirit and purpose on the part of the utilities, and, on the other hand, administrative power must be wisely and fairly executed by those charged with regulatory responsibility if they are to retain the public confidence, and in both respects the result of experience is increasingly encouraging. Both

(*Please turn to page* 566)

(Continued from page 564)

utility management and regulation may be said to have met the great test in the changed conditions growing out of the war. The result of that test has been increased confidence, both in the commissions and utilities.

The changed attitude in respect to regulation and in respect to the utilities themselves is well expressed in a recent address by Marshall E. Sampsell, of Chicago. He said:

"Each year brings added evidence of better understanding on the part of the public as to the purposes of and responsibilities resting upon public service commissions. The initial thought that regulatory bodies were created by law to lower rates and impose operating burdens on public service corporations is fast being dissipated, and the thinking public is adopting the sane view that both the public and the public service corporations are better circumstanced under regulatory procedure designed to permit public service companies to render constantly a high quality of service at rates sufficient to give the companies a fair return and reward for the service rendered. * * * It should be the aim of every executive engaged in the business to see to it that he and his fellow employees carefully prepare and faithfully disclose all information required by our respective public service commissions, and that at no time or under no stress of circumstances should these regulatory agencies be misinformed or wrongfully advised as to any feature of our business."

Fair Reward for Service

With one exception (if it be an exception) the regulatory commissions do not fix rates on the basis of dividends paid, but on a fair allowance for return and profit for the service rendered. This is as it should be, but now and then we hear criticisms of the dividends earned on common stock by efficiently managed public utilities. If at reasonable rates for the service rendered the stock of any such company is earning a fairly liberal dividend, this ought to be a matter of congratulation and not at all a matter of adverse criticism.

There is often a failure to distinguish between what may be a fair interest rate on preferred securities and what may be the reward to the common stockholder. If the time shall come when the two are confused and put upon the same basis, it cannot but adversely affect future financing and service to the public. There is no industry in which the common stock does not represent an element of risk of a substantial nature, and what is true of other industries is also true of the utility business. The bondholder takes substantially no risk. The preferred stockholder does take a slight risk depending upon the equity in common stock back of his preferred stock. The risk of the common stockholder can only be compensated by a considerably more liberal reward than goes to others if we are to raise money on common stocks, which take the risk of failure or loss and are entitled to the rewards of efficiency and earnings at reasonable rates. Unless common stock money can be obtained—and it cannot unless the greater risk assumed is compensated by the chance for greater profits—the preferred stock money and the bond money will not be forthcoming and the utility will decay or decline. In practice, as said by Mr. S. Z. Mitchell, of the Electric Bond and Share Company, there is no sane reason why anybody should buy preferred or any limited yield stock if it has no equity or margin back of it. "It is much more difficult to sell a high grade preferred stock somewhere near par as required by present laws of most states (as compared with bonds), but still very much easier than it is to sell common stock in most companies at anywhere near par."

The fact is often overlooked that it is the earnings back of the stock which ultimately determine its value and selling price, rather than the dividends declared. Sound common stock values and salability are based to a large extent on the fact that a proportion of the earnings go into surplus.

The important thing is to help the regulatory commissions make clear to the public that economical and adequate financing is impossible unless those with money can be induced first of all to put some of it in common stocks to provide the margin for preferred stocks and other securities.

Stabilizing Influence of Regulation

Speaking at the annual meeting of the electric industry the other day at Atlantic City, Vice President J. F. Shaughnessy of the National Association of Railroad and Utilities Commissioners, well expressed this fact:

"We know as regulators and you as the regulated that the electric public utility business is being conducted honestly and efficiently. The commissions backed by the courts have been a bulwark of strength to the consuming public by insisting that your industry render the best possible service at the lowest rates which will produce that service. We have imparted a certain element of stability to your securities in recognizing your legitimate requirements and permitting you a reasonable return on the fair value of your properties."

In 1924, the Committee on Public Ownership and Operation of the National Association of Railroad and Utilities Commissioners said:

"Under our present form of regulation, the utility business is carried on openly. The results of operation in detail are available to the public constantly. All the activities of utilities in which the public has a reason for being interested are subject to regulative scrutiny. Whatever abuses existed before regulation was instituted have practically ceased to exist, and in general it may be said that no one suggests that the rates charged to the public are unreasonable or extortionate except the ignorant, the demagogue, the unscrupulous politician seeking votes or the just as unscrupulous newspapers seeking to build up circulation by attacking public utility corporations. Discrimination is practically impossible under regulaton."

As regulation comes to be accepted as a permanent institution, more and more the people will come to understand the principles which must prevail in regulation to our utility service if it is to meet all future requirements. While those receiving utility service will be fully protected as to adequacy of service and as to reasonableness of rates, the utilities will be assured that fair future treatment upon which alone the industry can develop in a healthy and efficient manner. The acceptance of regulation means the elimination of political municipal regulation, the substitution of science for politics, the elimination of wasteful duplication of service, the elimination of franchise questions threatening the very life of the utility, the assurance of an ade-

quate reward for service properly rendered, and the establishment of a faith in the future of the utility industry upon which alone enthusiastic devotion to that service can be reasonably founded. Such is the ideal of state commission regulation.

Regulation and Management

While utility property is devoted to a public use and is in the terms of the law "affected with a public interest" the property thus devoted to a public use is still private property, and the right of management thereof rests with the owners of that property. Regulation was never intended to supersede private management of a privately owned utility. Management is a function of ownership and government management can only go with government ownership. This is well expressed by Vice President Shaughnessy in the address referred to:

"Management and regulation are entirely distinct and apart. Regulating commissions do not attempt to manage the public utility, but sit as an impartial referee protecting the interests of the public on the one hand and of the security holders and management of the public utility on the other. There is no conflict here."

Federal Encroachment on State Rights

No small part of the success of state commission regulation is found in the relations existing between the regulating commission and the public served by the utilities regulated. Success in the regulatory field is obtained with difficulty or not obtained at all when the regulatory body is so far removed from contact with the problems it is called upon to solve that all intimate relation between the regulatory bodies and the public is lost. State commission jurisdiction is wide enough so that the commission is not usually subject to local political pressure or political propaganda. On the other hand, it is not so far removed from the problems which it has to deal with that it has not a first-hand and intimate knowledge of the questions involved, which often have local aspects, an understanding of which is essential to successful administrative action. Such cannot be the situation if federal encroachment shall in any wise impair the efficiency of state administration.

The public are satisfied with their state commission regulation. There is no cry for federal interference or federal regulation. It would be most unfortunate if Congress should in the future attempt to exercise or exert a power that might cripple or interfere with the successful state administration of utility laws. As said by Secretary Hoover in San Francisco in 1925:

"There are the most weighty of reasons against federal regulation. Electrical power is by necessity bound to be local in its districts, as to its service, its generation and distribution. It differs widely from the interstate implications of the railways, where they are dependent not upon districts, but upon whole groups of states. Local acquaintance, local valuation and public opinion can operate upon power to their fullest extent. Nothing will produce worse service than to attempt to transfer local problems to absentee solution at Washington. And if our democracy will stand at all, it must stand upon the local responsibility. Nothing could be a more hideous extension of centralization in the federal government than to thus undermine the state utility commissions and state responsibilities."

Turn to Pages 584 and 585 for Our List of Public Utility Investment Suggestions.

President Ainey, of the National Association of Railroad and Utilities Commissioners, said in an address at San Francisco:

"The clarified impression of the American people is turned from over-centralization of authority in Washington where there already exists overburdened federal agencies, which, because of the magnitude of the matters involved, have necessitated mass conclusions rather than those more intimate and individualistic, which state commissions can and ought to make."

The attitude of the public utility commissions is well expressed in this same address of President Ainey's:

"To meet the present pressure of a new development in, and extended use of electricity for domestic and industrial use, state commissions must awaken to a deeper sense of commission duty and responsibility. Their laws must be strengthened where now they are weak. Their administration must be wise, constructive and fearless, freed from the bias of politics and actuated by no desire other than to maintain fair balance between the utilities and the public."

Regulation must in the future as in the past be based upon the acceptance of the cooperative spirit both by the regulator and the regulated. There must be cooperation on the part of the utility as well as a sympathetic understanding of their problems by the regulatory body. It is this spirit that makes a good law valuable for all.

One Hundred Leading Industries Ranked According to Ratio of Energy Cost to Total Value of Product

Rank	Industry	Value of Product (Million Dollars)	Per Cent of Energy Costs
	All industries	$62,418	2.64
	UNDER 0.25%		
1	Bags, other than paper	214	0.14
2	Fur goods	173	0.17
3	Cigars and cigarettes	774	0.19
4	Women's clothing	1,209	0.21
5	Men's clothing	1,163	0.23
	0.25% TO 0.50%		
6	Men's furnishing goods	108	0.28
7	Shirts	205	0.34
8	Jewelry	204	0.34
9	Millinery and lace goods	256	0.35
10	Coffee and spices	305	0.36
11	Boot and shoe cut stock	161	0.37
12	Smoking and chewing tobacco	239	0.38
	0.50% TO 0.75%		
13	Boots and shoes (except rubber)	1,155	0.51
14	Patent medecines and compounds	212	0.52
15	Automobiles	2,388	0.54
16	Boxes, wooden packing	178	0.56
17	Slaughtering and meat packing	4,246	0.57
18	Oil, linseed	121	0.58
19	Lumber and timber products	1,387	0.59
20	Druggists' preparations	115	0.61
21	Copper, tin and sheet iron work	160	0.62
22	Tinware	234	0.64
23	Flour and grist mill products	2,052	0.74
	0.75% TO 1.00%		
24	Chemicals	439	0.75
25	Butter	583	0.75
26	Knit goods	713	0.77
27	Newspaper and periodical printing and publishing	924	0.78
28	Pickles, preserves and sauces	146	0.82
29	Book and job printing and publishing	598	0.83
30	Photographic materials	116	0.86
31	Food preparations	632	0.89
32	Oil, not otherwise specified	156	0.90
33	Silk goods	688	0.90
34	Zinc smelting and refining	104	0.90
35	Canning and preserving, fruits and vegetables	402	0.92
36	Pianos	107	0.93
37	Planing mill products	500	0.94
38	Phonographs	159	0.94
39	Shipbuilding, steel	1,456	0.95
40	Cheese	143	0.98
	1.00% TO 1.50%		
41	Chocolate and cocoa products	139	1.01
42	Shipbuilding, wooden	166	1.02
43	Paper boxes	206	1.03
44	Cordage and twine	133	1.05
45	Leather	929	1.06
46	Rubber boots and shoes	117	1.11
47	Furniture	571	1.12
48	Railroad cars	538	1.15
49	Soap	317	1.19
50	Fertilizers	$281	1.21
51	Paper goods	107	1.22
52	Textile machinery and parts	122	1.23
53	Automobile bodies and parts	692	1.25
54	Rubber tires, tubes, etc.	987	1.28
55	Structural ironwork	295	1.29
56	Engines,—steam, gas and water	465	1.29
57	Confectionery and ice cream	637	1.30
58	Mineral and soda waters	135	1.33
59	Sugar, refining	731	1.34
60	Worsted goods	701	1.37
61	Carpets and rugs	123	1.38
62	Paints	257	1.40
63	Machine tools	212	1.42
64	Cottonseed oil and cake	581	1.48
	1.50% TO 2.00%		
65	Condensed milk	340	1.55
66	Stoves and hot air furnaces	146	1.57
67	Woolen goods	365	1.59
68	Automobile repairing	225	1.60
69	Agricultural implements	305	1.63
70	Bread and other bakery products	1,152	1.69
71	Cotton goods	2,125	1.75
72	Cement	175	1.78
73	Tools	144	1.87
74	Locomotives	1,156	1.99
75	Glucose and starch	186	1.99
	2.00% TO 3.00%		
76	Hardware	155	2.00
77	Stamped and enameled hardware	144	2.01
78	Electrical machinery, apparatus and supplies	573	2.39
79	Railroad car and shop construction	1,279	2.45
80	Steam fittings and heating apparatus	160	2.50
81	Wire	162	2.59
82	Brass, bronze and copper products	482	2.64
83	Marble and stone work	129	2.71
84	Lead smelting and refining	197	2.89
85	Copper smelting and refining	651	2.95
	3.00% TO 5.00%		
86	Coal tar products	135	3.03
87	Malt liquors	379	3.06
88	Dyeing and finishing textiles	324	3.21
89	Petroleum refining	1,633	3.27
90	Foundry and machine shop products	1,341	3.61
91	Beet sugar	149	3.62
	5.00% TO 10.00%		
92	Forgings, iron and steel	174	5.00
93	Iron and steel, iron works and rolling mills	2,829	5.55
94	Paper and wood pulp	788	6.97
95	Glass	262	9.28
	OVER 10.00%		
96	Brick, tile, terra cotta and fire clay	208	16.50
97	Ice,—manufactured	137	18.70
98	Iron and steel, blast furnaces	794	29.68
99	Gas, illuminating and heating	329	34.90
100	Coke	317	63.20

Summary of Energy Costs in 100 Major Industries

(Based on 1919 Manufacturing Census—Includes Cost of Fuel and Purchased Power)

In this important table, the reader learns the cost of all energy-producers, whether electric power, coal, etc., in every industry. This basic study has never before been completely attempted.

Per Cent Energy Cost of Value of Product	Number of Industries	Value of Product (Million Dollars)	Per Cent Value
Under 0.25%	5	3,533	6.5
From 0.25 to 0.50%	7	1,478	2.7
From 0.50 to 0.75%	11	12,249	22.4
From 0.75 to 1.00%	17	7,865	14.4
From 1.00 to 1.50%	24	10,442	19.1
From 1.50 to 2.00%	11	5,319	9.7
From 2.00 to 3.00%	10	3,932	7.2
From 3.00 to 5.00%	6	3,961	7.3
From 5.00 to 10.00%	4	4,053	7.4
Over 10.00%	5	1,785	3.3
Total	100	54,617	100

Management as a Vital Factor in Utility Progress

Its Essence and Breadth of Opportunity in National Service

By CONRAD NEWTON LAUER

As General Manager of Day & Zimmerman, Inc., Mr. Lauer occupies a commanding position in the public utility world. His views, consequently, bear the stamp of authority and are well worth examining.

PUBLIC Utility Management—and I have reference to the electric power utilities—has three components: physical operation, administration, and finance. The emphasis upon finance, as a function of management, has been brought nearer home through the development of junior financing by the utilities themselves.

Private ownership and initiative, under public regulation became the benchmark from which this modern, typically American industry has been reared. In the facts of actual achievement and contribution to the welfare of our nation, our American system of utility management has been justified.

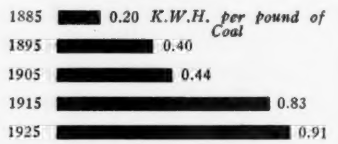
Management must have purpose and direction. By and large, what objectives has public utility management set up for itself? Service to the public; yes! But how? In ever greater reliability, efficiency, economy and availability. In this 24-hour-a-day industry in the first rank among American enterprise, lifetimes have been spent in constant effort by management to sesure a fuller measure of service. And yet the electric power utilities are not the most venerable among American utilities. Can there be pointed out any other industrial group in this country which has made greater strides in developing adequacy of management than this essential industry which had its beginning only in 1882?

Suppose we analyze each of the three components I have referred to. Physical operation, first:

Utility Operation

Few realize the necessary mastery of prodigious detail, the coordination of Men, Materials, Methods and Money —the 4 M's—in the planning and construction of even a single large electric generating station. How many, except those within the family circle of management, realize the multitudinous character of problems that can arise even within a 24-hour interval, in the operation of a public utility system? Its product is one without which its community scarcely can exist. Therein lies a responsibility upon management which the heads of many other industries never know, because in the disposal of their product the time element, in continuity of supply, has not the same significance.

"The Utility Value of a Pound of Coal"



The Chart shows graphically what enormous progress has been made in obtaining the energy of Coal through the medium of steam prime-movers and electric generators. The following tabular comparison (upon which the above is based, and which assumes Coal having a uniform calorific value) shows that while considerable progress has been made in burning Coal, i. e., the evaporation, the really great progress has been made in the development of the steam prime-mover.

Year	Evaporation Water Per Lb. Coal	Water Rate Steam Per K.W.H.	"Utility Value" K.W.H. Per Lb. Coal
1885	7.0 lb.	35.0 lb.	0.20 k.w.h.
1895	8.0 lb.	20.0 lb.	0.40 k.w.h.
1905	8.5 lb.	19.5 lb.	0.44 k.w.h.
1915	9.0 lb.	10.8 lb.	0.83 k.w.h.
1925	10.9 lb.	10.3 lb.	0.91 k.w.h.

The above represents best practice at the dates noted.

"The Utility Value of a Pound of Coal"
From Power Discussion by Charles Penrose, in "Philadelphia Chamber of Commerce News-Bulletin," Special Power Number, June, 1925.

If you will look at the electrical map of the United States today, you will see what public utility management has accomplished in the interconnection of systems—a development brought about largely since the World War. The economist of the future will perceive the economic results already obtained and which will follow the steady growth of Interconnection. The electrical map today will show literally a network of transmission lines extended almost unbroken, from the Great Plains of Nebraska and the Dakotas, eastward to the Atlantic Seaboard, and from there south to the Gulf.

In the Northwest, the map today will show Interconnection from eastern Montana, westward to Puget Sound and British Columbia, southward along the entire Pacific Coast to southern California, and there eastward to western Arizona. Utility management is making one of its greatest contributions to the progress of our nation, in the extension of this policy of Interconnection, provided always that the particular physical link between properties is based upon economic justification for the exchange of energy between the two, or as part of a unified whole. In my own opinion the progress of today would have been postponed years hence, had not the American answer as to what form public utility management should take, been given in the establishment of state regulation—a recognition of the validity of utility monopoly, but regulated. It is hard to conceive that utility management could have accomplished, even in the single field of Interconnection, the progress which it has, had each individual link in today's map been composed of competing companies, with the economic waste of duplication of plant, of management, of investment, and of service.

Waste and utility management, like the philosopher and his jug of rum, cannot lie down together and remain wholly at their ease! Interconnection is a cardinal principle, in utility operation, in the elimination of waste. But there is another, closely tied in, which too will win the recognition of future generations. If our children are to enjoy the opportunities which these United States give, it is *our* present obligation to conserve the natural resources of this country.

Utility operation has found one of its greatest opportunities for national service in the steady progress of economies in electric generation. Therein lies conservation of our natural resources. A ton of coal in steam-electric generation is made to produce more energy; a barrel of oil yields more; the same water, in hydro-electric generation, produces greater volume of electricity.

In the realm of conservation of our natural resources, there is no greater authority than the Director of the United States Geological Survey, Dr. George Otis Smith. In the following letter, Dr. Smith has summarized the results of an analysis, conducted during the past six years by the Geological Survey of conservation by electric public utilities.

The letter is quoted in its entirety:

JUNE 5, 1926.

MR. C. N. LAUER, General Manager,
Day & Zimmermann, Inc.,
Philadelphia, Pa.

My Dear Mr. Lauer:

The progressive economies in steam-electric and hydro-electric generation by the public utilities of the country in the six years covered by the Geological Survey's statistics constitute an inspiring and hopeful record. However great our country's endowment of energy resources may be, our increasing dependence upon electric power in every department of life makes it the part of wisdom to apply all possible forms of thrift in the ever larger drafts that we make on our sources of energy. The returns to the Geological Survey show that the central station output of electricity has increased 69.3 per cent in this period of six years.

With by far the larger part of our water power undeveloped, I have been interested to note from these authoritative records that the streams of the country continue to carry about one-third of the public utility load, and that means that last year water conserved more than 23 million tons of coal. Yet it is on coal that we must continue to depend for at least two-thirds of the country's daily ration of electric energy, which now reaches nearly 200 million kilowatt-hours. It means much, therefore, that the steam power plants of the country in their program of fuel conservation are obtaining such encouraging results. As I stated to the General Federation of Women's Clubs the other evening:

"The power plants that make the electric current that you and I buy—a string of electric stations extending from coast to coast, 4,000 of them—are breaking fuel-saving records every year. Last year, on the average, the burning of 2.1 pounds of coal generated a kilowatt-hour of electricity, whereas six years before it took 3.2 pounds of coal to do the same work. And the best stations are doing even better—1.03 pounds last year, and 1.62 pounds six years before. Plainly the end of coal thrift is not yet."

It is obviously of great national concern that the larger users like the railroads and the power plants practice thrift in coal. I brought to the attention of the House Committee on Interstate and Foreign Commerce last month that possibly too much emphasis is put on coal as a source of heat for our homes, and not enough appreciation is shown of the indispensable part it plays in turning the wheels of interstate commerce and nation-wide industry. Few realize the extent of this public service—that it takes 85 tons of coal a minute to feed the steam boilers of the public utility plants, and more than twice that amount is shoveled into the fireboxes of the locomotives every minute. I suggested that we might consider that 270 tons a minute as the pulse of the nation's very life blood.

I have frequently expressed myself in appreciation of the efficiency and enterprise connected with the wonderful growth of our electric public utilities. Indeed, the statistical facts that I have just mentioned seem to me proof positive of the highly satisfactory results that are being attained through the initiative of private business in the service of the public. In my recent appeal to the House Committee mentioned above in support of fact finding and fact facing as stimulating new records in efficiency I referred to my experience with the public utilities and my observations based thereon. As I told the Committee:

"A few years ago we made an intensive study of the power situation—the superpower investigation. My experience with power companies at that time—and those are companies that are growing with incredible rapidity—my experience led me to believe that the enforced opening of the books, such as Congressman Lea just referred to, to the regularly constituted public officials, has developed efficiency in those public utilities, and efficiency as it is found, I believe, in no other industry. I am convinced from personal observation that these executives who are publicly regulated, you might say, are inventing and installing improvements, are cutting down operating costs, are enlarging their plants, and are building for the future—all this with a vision that I do not find in either the coal industry or the oil industry, from similar contacts, and I believe that that is the effect, and it is not a blighting effect, of public regulation of private business."

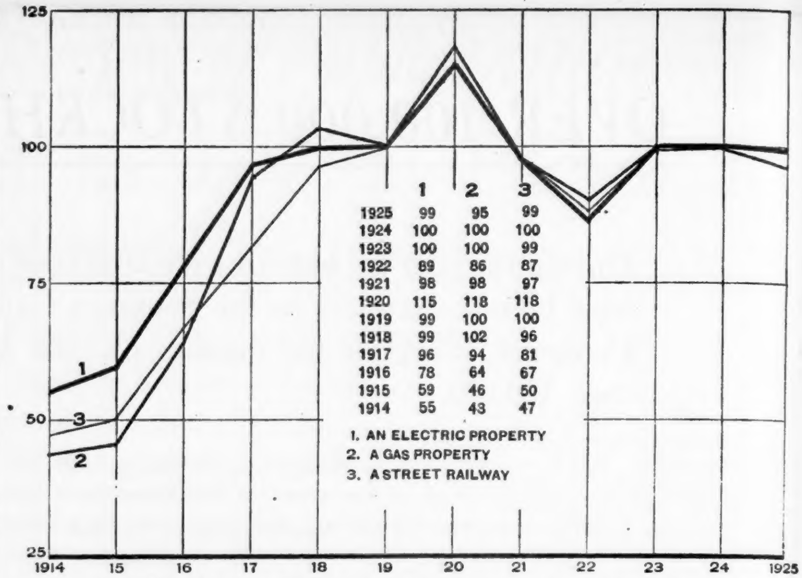
Yours very cordially,
(Signed) GEORGE OTIS SMITH, Director.

Of similar significance in conservation are the figures that have been compiled in New York State, covering almost two decades, on the production of electricity and the use of coal by the electric light and power utilities. These figures show that for Greater New York alone, the pounds of coal consumed *per kilowatt-hour* in 1907 were 261% of that in 1925.

Herein is reproduced a chart designated: "The Utility Value of a Pound of Coal." It is some index to the progress in greater efficiencies in the generation of steam-electric energy, over the 40-year period 1885-1925. The figures shown are conservative approximations and are satisfactory for purposes of comparison. The comparison assumes coal having a uniform calorific value.

In the hydro-electric field, during the past twenty-five years, the percentage of loss in the conversion of hydraulic to mechanical power has been decreased from between 15 and 20% loss in 1900, to about 6.2% loss today. With that spirit of friendly competition—within a same utility system—which there is in California, between steam power and water power, it is interesting now to note that the very high economies that have been obtained in recently completed oil-burning steam plants in southern California, have brought about a situation where with fuel oil at a low figure, the cost of generation becomes so low that, in the opinion of California engineers competent to judge, additional stream-flow hydro-electric plants in California are practically out of the question, and hydro plants having storage facilities must be scrutinized more carefully than heretofore. As one of the Pacific Coast engineers puts it, only an increase of several hundred per cent in the price of fuel can change this condition.

Public Utility Management has proceeded far along the road of conservation of our natural resources. Un-



TRENDS OF COMPOSITE PUBLIC UTILITY VALUES: 1914-1925

From "Trend of Construction Cost of Certain Public Utilities," by William Breuer, Engineer, in "Proceedings of the American Society of Civil Engineers," New York, March, 1926.

doubtedly, the years to come will indicate vast further progress.

Utility Administration

Executive control is interwoven with human relationships. Leadership is a criterion of successful Management. How true it is that in the eyes of the Public some one individual, usually the president, personifies the utility company in that community. His personal relationship to the community is often fundamental to the so-called "Public Relations" which the utility enjoys. Or, the picture may be reversed, but not often.

Management's problem is fundamentally one of organization. The personal equation can never be forgotten. That the personnel today of a single operating company can be counted in thousands of people shows the growth from what the utilities were, even twenty years ago. Administrative organization in the utilities has been an evolution that has included not only organization by individuals but organization by companies.

So much has been spoken and written about Holding Companies that I need elaborate little here. In my opinion, the distinquished investment banker, Richard E. Norton, in his address at Atlantic City, in May before National Electric Light Association, well summarized the situation. He said:

"I want to remind you that in the banker's viewpoint, there is a line of demarcation between holding companies. We can distinguish between those which, through their operations, make a distinct economic contribution in upbuilding their properties and their communities, made possible by service—whether managerial, financial, engineering, purchasing and in a score of other ways, as distinguished from the holding companies whose principal objective would appear to be that of gaining control of a property, in a policy which savors of imperialism. Sometimes in the recent past, the price paid for a property appears to have been of little consideration. But the problem of differentiating between holding companies is one which well can be left to the industry itself to work out. You gentlemen are well equal to the task, and policing is most effective when from within."

His comment is timely and very much to the point. I more than suspect his views are shared by the leaders in the industry.

Out of the mass of problems which utility management must solve—with equal justice to customers and public, to the property itself, and to its stockholders—I wish to touch upon one additional, only. The fabric out of which is woven modern rate structures under public regulations, cannot be divorced from values. Since 1914 the world has embarked upon a period which will go down in economic history as one of rapid changes in values. Utility Management has felt these changes in every department of its operations, and, of course, in the relationship of valuation to rate structure. In the organization with which the writer is identified, an interesting study was recently completed of the trend in value of public utility properties, during this same period of 1914-1925. Several months were necessary to make the analyses of construction costs. Because more accurate results are obtained by the use of present-day cost data, a 1924 base was used. The results are related to actual conditions, and the studies were initiated in connection with a valuation recently made of one of the largest public utilities in the United States.

In the accompanying chart then are given composite public utility trends of valuation from 1914-1925, typical of light and power, gas, and street railway properties. The uniformity from 1919 to 1925, during the post-war years is very notable. The component parts of these properties differ widely, the one with its boilers, stokers and turbogenerators, the gas plant with its holders, trunk lines and mains, and the street railway property with its track and rolling stock, but in each of these properties certain basic materials, and also labor, predominate sufficiently in

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(*Continued from page* 572)

their physical elements, to keep the trends approximately in line. The reader is referred to the chart.

Utility Finance

Public Utility Management from its beginnings has advocated the principle of the central station, with its reliability, its efficiency and its breadth of distribution, rather than the principle of the isolated plant. By application of the same principles, utility management in its senior financing looks to the investment banker, with his reliability, his efficiency and his breadth of distribution. Coincidentally, utility management, through Customer Ownership, in the distribution of junior securities among those whom the utilities serve, has gone far to preserve the junior equities and the capital structure; and by taking the public into partnership, has promoted most happily the status of Public Relations.

Figures have lately been announced which show that during 1925 the American investing public, of all classes, has absorbed new capital issues in the Utilities including refunding operations, of an amount of nearly 24½ million dollars *a week*, of which about 23% was sales direct to customers.

In regard to the ratio between senior and junior securities, there has been from time to time the swing of the pendulum. A well known utility manager has summarized the present situation in this fashion: a few years ago, with the growing ease of raising money from junior securities, many operators expressed the view that future money would be raised entirely from the sale of issues of stock. There apparently is a big swing from this position, and a feeling that a substantial portion of the money should be obtained from senior securities, with maturing obligations, or at least senior issues of stock which, because of prior claim on assets and earnings, may be put out at a lower rate of return. This position has been recognized because it is seen that, in the case of a business which turns its capital only once in five years, money at 5 per cent means 25 cents for fixed charges out of every dollar of annual income, whereas money on the basis of 8 per cent, commonly paid on stock, means 40 cents for fixed charges out of every dollar of annual income. The difference is so great that it is readily seen that some financial structure which results in a lower average cost of money must be used.

Public Utility Management naturally rears its ever-expanding structure upon the practical application of business finance. Its ramifications and its problems would fill, and do fill, many a book.

* * *

In the preparation of this article, the writer wishes to express appreciation to two of his associates, for their helpful suggestions: to Mr. F. W. Woodcock, President, General Public Utilities Company, and to Mr. Charles Penrose, Assistant General Manager of Day & Zimmermann, Inc.

A WORLD ORGANIZATION

Nothing is more important to civilization than the control of fire. Translated into industrial terms the control of fire means power. Nothing can be produced from the smallest article of manufacture to the most gigantic structure without power entering in as a basic factor all along the line.

The basic factor in producing power is no longer the manual shoveling of coal into poorly-designed furnaces. The demands of industry and of the great central stations of today are for efficiency and the gaining of the last ounce of energy from every ton of coal burned.

International Combustion Engineering Corporation for many years has led in the development of devices for the economical production of power. A large percentage of the great central power stations built in the last three years have unhesitatingly adopted its "Lopulco Systems" for burning pulverized fuel.

A world organization with subsidiary companies in every important industrial center, its research engineers constantly at work in New York, London, Berlin and Paris seeking new ideas and improvements in the mechanical and scientific developments and applications of the more than 23 products of this corporation, presents a new thought in engineering. These are some of the outstanding reasons why this organization is in a position to consult and advise as to any problem that may present itself in connection with your power plant. Not only does it build combustion devices but steam generators and water tube boilers which have been adopted by the most outstanding power plants of the world. The central power plant of the city of Berlin is under construction by this organization. Two of the power plants supplying light and energy to the city of Paris are fully equipped with its pulverized fuel and other devices. Several of the great plants of London, the great central power plant at Buenos Ayres and great plants in New York City now under construction have all adopted its fuel burning and other equipment as a part of the integral scheme, looking toward the efficient and economical production of power.

Added evidence of the scale on which Combustion Engineering Corporation is serving industry all over the world is indicated by the fact that its equipment is installed in power stations in Chicago, Kansas City, St. Louis, Milwaukee, Detroit, Boston, Canada, and abroad in England, France, Germany, Holland, Belgium, Italy, South America, Africa, Japan and Australia.

In many cases material economies that have paid for themselves in a short time have been pointed out, even in the cases of power plants where the management had installed the most up-to-date and modern devices but a short time before. The new products which it has developed within a comparatively short time have radically changed former ideas as to power plant construction. An illustration is that of a power plant in which the owners are saving approximately $80,000 per year by eliminating the brickwork in the furnaces and substituting "Finn Tubes," which not only eliminate the necessity of this $80,000 expenditure for relining the furnaces annually but to some degree increases the capacity of the boilers.

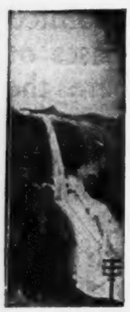
* * *

International Combustion Engineering Corporation is located at 43 Broad St., N. Y. C., and maintains a department of its organization there as well as in every large city in the country and abroad to advise with power plant owners as to possible economies in power production. This service is of course gratis and is a part of the service which the organization is constantly rendering to the field.

Utilities Keeping Abreast of New Opportunities

Refrigeration, Bus and Radio Typical of New Demands

By ALFRED C. CHANDLER



PROPHECY of the future in the public utility industries is not the fortuitous proceeding that it is in various other lines of industry. So far, it seems that the only result has been to show that actual figures have greatly exceeded the predictions. Especially has this been true in the electric light and power, gas and telephone industries, which have developed with a rapidity beyond the most sanguine early expectations. The chief problem in prophesying is to predict with any degree of accuracy just when the growth will tend off to normal. Clearly, the turn is many years away.

Prospects for future expansion of the utilities are as bright today as they were twenty years ago, when the real expansion movement began. Undeveloped fields will be reached and further expansion will be brought about through increased understanding of the public as to potential uses of the services. It is said there are 65,000 different uses for electric energy alone, while the possible uses for gas runs to some 21,000.

Today there are about 64,000,000 people in the United States living in electrically-wired homes, 52,000,000 live in homes served with gas, and there is a telephone for every eight persons.

The electric industry believes that the time is near when it will not expand further by taking on more residences, but through greater use. There are now only about 2,600,000 houses within the reach of the power lines awaiting wiring. The natural level of population increase brings about 200,000 accessible new homes each year. It is estimated that the domestic market for electrical energy is but 7% developed.

Quite startling have been the economies brought about in the greater efficiencies obtained in fuel burning during the past five years. The steam railroads use about 25% of the total coal produced in the country, and the other public utilities about 8%. The railroads in 1925 operated their freight trains at 19% less coal per freight ton-mile than in 1920, and passenger train car-miles at 14% under 1920; this resulted in a saving of 24,467,000 tons of coal, equal to about $73,401,000 at current average prices. The electric central stations achieved an even greater saving—having produced each kilowatt-hour of energy in 1925 with 33% less fuel than in 1920. The saving in fuel is estimated at 20,118,000 tons, equal to $60,354,000.

Researches are constantly being made into further methods to reduce economy and provide greater efficiency of service at the same or lower rates. The dynamo has been brought to the remarkable efficiency of 98% in the larger sizes. Through the use of the mercury boiler (an installation is now in use at Hartford, Conn.) a thermal efficiency of 44% of the power units has been obtained, equal to 34% thermal plant efficiency.

Researches are under way, according to the engineers of General Electric Company, for the discovery of other such fluids. In transmission line operation voltages of 220,000 are in use with highly satisfactory results over a distance of 250 miles, and even higher voltages are said to appear technically feasible—although it is unlikely that a higher pressure will be required for general power transmission for some years to come.

With the 1,200-pound pressure boiler, of which the new Edgar plant at Boston has an installation, kilowatt-hours are produced at an exceptionally low thermal efficiency. Low temperature carbonization and distillation of coal also offers great possibilities for future economies, experiments now being made in the Lakeside plant of Milwaukee.

The new inventions have made it possible to generate energy more economically in large plants with improved machinery and operating methods and to transmit it economically to longer distances. While the largest steam generating plant of today in the United States is of 288,000 kilowatt capacity (the Lake Shore plant at Cleveland, which is surpassed only by the Goldenberg plant, of 290,000 kilowatts, near Cologne, Germany) there are several plants now under construction of from 400,000 to 1,000,000 kilowatt capacity. The ultimate capacity of the Crawford Avenue and State Line plants in Chicago will be 1,000,000 kilowatts, and of the 14th Street plant in New York 750,000 kilowatts.

It has been pointed out that half a billion dollars of revenue is available to the electric industry through new business from residences already within reach of their wires, through the improvement of each home to a conservative minimum or ideal of lighting. If all homes were raised to the same standard the available revenue would be about one billion dollars. The home lighting field is, at all events, far from saturation and offers tremendous possibilities.

While the majority of the energy output is sold for power purposes the greater part of the revenue comes from residential and commercial lighting sources. In 1925, 67% of gross revenue was from lighting and 24% from power; the balance being from electric railways and other utilities. This difference indicates the fact that it would require heavy reduction in power uses to bring substantial decreases in the total gross revenue. The lighting load acts to stabilize gross revenues.

On the first of the year there were estimated to be 142,000 domestic refrigerators in use in the United States, of which 75,000 were sold in 1925. There are about 50 companies manufacturing this class of equipment, and

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Status of Common Carrier Buses on January 1, 1926

	Number of Buses
Intrastate motor carriers	30,475
Interstate motor carriers	1,500
Electric railway buses	5,150
Steam railroad buses	375
Total	37,500

(Source: Bus Transportation)

New Issue *July 2, 1926*

16,000 Shares

Peoples Light and Power Corporation

Class "A" Common Stock

Authorized 100,000 Shares — Outstanding, including this offering, 16,000 Shares

Transfer Agents:
The Seaboard National Bank, New York
Old Colony Trust Co., Boston
Office of the Company, Minneapolis.

Registrars:
Central Union Trust Co. of New York
State Street Trust Co., Boston
Bankers Trust & Savings Bank, Minneapolis

This stock is privileged to vote if at any time dividends are not paid at the rate of one dollar per share per year. Directors may declare dividends on this stock without doing so on Class "B" Stock. Otherwise this stock participates equally with the Class "B" Stock.

Dividends have been declared at $2.00 per annum per share payable monthly for 1926.

Business: The Peoples Light and Power Corporation, through its subsidiary companies, will supply public utility service in ninety-nine communities located in Wisconsin, Minnesota, Iowa, Washington, Oregon, Arizona and Vermont. The main source of revenue of the corporation will be from the sale of electricity and the majority of its electric properties are hydro-electric systems. The total population served by the constituent properties included in the holdings of the subsidiary companies of this corporation, is in excess of 170,000. Some of its constituent companies have been in continuous operation in the territory served since 1872, and all of them or their predecessors since 1912.

Properties: The constituent companies own 20 fully equipped power plants, of which thirteen are hydro-electric. The total H.P. installed is 9,690, of which 7,200 H.P. is hydro-electric. There is now being constructed a new hydro-electric generating station with a capacity of 2,000 H.P., which will bring the total capacity of all electric plants up to 11,690. The constituent companies own 11,800 H.P. of undeveloped water power. There are over 530 miles of electric lines, and about 25 miles of gas mains with gas plants having a total capacity in excess of 350,000 cubic feet. There are about 40 miles of water mains and a pumping capacity of 8,200,000 gallons per day, and over 3,000 customers served with water. On June 1, 1926, the constituent companies served 11,877 customers with electricity and a total of 17,327 consumers, including those served with electricity, gas and water by the constituent companies.

Earnings: Consolidated earnings of the constituent properties of the corporation are as follows:

	TWELVE MONTHS ENDING *December 31, 1924*	*December 31, 1925*	*March 31, 1926*
Gross Revenues	$1,029,456.44	$1,052,317.77	$1,084,874.11
Operating Expenses, Maintenance and Taxes Other Than Federal Taxes	584,949.05	594,369.52	611,986.35
Net Earnings	$ 444,507.39	$ 457,948.25	$ 472,887.76
Interest and Dividends on Senior Securities	332,250.00	332,250.00	332,250.00
Balance Available for Reserves, Retirements and Dividends	$ 112,257.39	$ 125,698.25	$ 140,637.76
Requirements for Annual Dividends on 16,000 Shares Class "A" Stock at $2.00 per Share Annually			$ 32,000.00

Dividend requirements earned over 4¼ times

Purpose of Issue: The proceeds of the sale of this Class "A" Stock are being used to reimburse the treasury of the corporation, in part for expenditures heretofore made, and the balance will be used for additions and improvements to the physical properties of the constituent companies, or for other corporate purposes.

Management: This corporation has the benefit of the management of the W. B. Foshay Company of Minneapolis, through that company's control of the Common Stock of this corporation.

Sold only in Units of Four Shares of Class "A" with One Share of Preferred

Price Per Unit $200

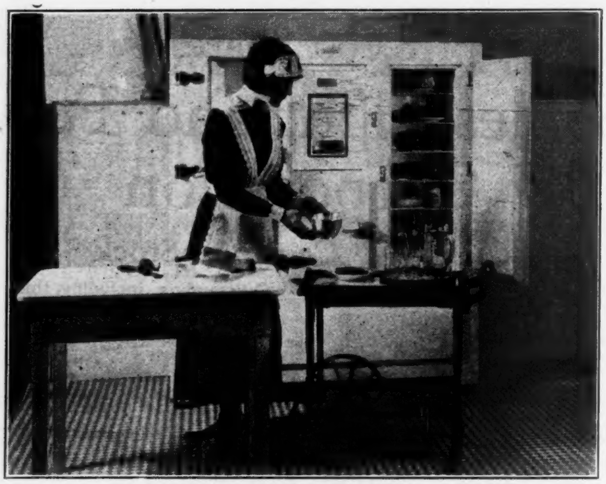
W. B. FOSHAY CO.
(INCORPORATED)

CHICAGO — NEW YORK — FOSHAY BUILDING MINNEAPOLIS — ST. PAUL — PORTLAND, OREGON

it is estimated that from 150,000 to 250,000 will be sold in 1926.

There are about 370,000 electric ranges in use, against about 1,600,000 gas ranges actually in use.

Present average consumption of the 14,500,000 residential customers is 350 kilowatt-hours per annum per residence. The greatest proportion of increase in this figure is looked for through electric refrigeration and the electric range. The refrigerator load is especially attractive to the companies, being a summer load, the period of lowest activity in the lighting use. The refrigerator requires little additional investment to the central station and for that reason is desirable.



The growing popularity of electric refrigeration had added greatly to the summer load of the electric companies

The present farm use of electric energy is small—only about 3% of the country's farms being connected to the electric lines. Only 7.8% of the farms have electric service of any kind—including local farm plants. Samuel Insull has estimated that the total potential farm market for electrical energy is nearly 19 billion kilowatt-hour per annum, equal to 29% of the present annual output of the country.

Only 1% of the country's 250,000 miles of steam railroad is electrified. If completely electrified the railroads would use some 40 billion kilowatt-hour of energy per annum, resulting in an enormous saving in coal consumption.

The future of the industrial field for electric energy seems especially bright. The maximum potential industrial load of the central station today has only been 44% developed. There are about 8,000 private industrial electric generating plants in the country, generating an aggregate output of about 12 billion kilowatt-hour.

A recent survey made by the *Electrical World* shows that the present possibilities of the electric industry are as follows: Gross revenues, seven billion dollars against one and one-half billion dollars today; annual kilowatt-hour sales of 300 billions against 47 billions today; total capitalization 22 billion dollars against seven and one-half billion dollars today; and total generator rating, 62 million kilovolt-amperes, against 27 today. Complete realization of these possibilities would result in an improvement in turn-over of capital to a ratio of 3 to 1 against 5 to 1 today; the average revenue per kilowatt-hour would be 2.76 cents against 3.07 today, and the gross revenue per unit of generating capacity would be increased from $54.78 to $115.76.

Interconnection of systems, new methods of operations, closer public relations and increased sales efforts will, in the electric industry, reduce the unit investment in the property, reduce the cost of energy, bring about lower rates through improved load factor, and will bring greater returns to the millions of investors.

Electric Railways: The electric railway industry, with a capitalization of six billion dollars, is making a recovery from the conditions of severe competition of vehicle traffic almost without parallel in American business. In the last few years we have witnessed in this industry an economic adjustment to the rapid change in methods of transportation, through coordination, into a transportation industry.

Both the city and interurban lines have been improved to meet modern service requirements for speed and comfort in travel, combined with economy. In New York City the street railway lines carry 40% of the total passengers. In Chicago the surface lines and the elevated system are carrying the greatest number of passengers in their history.

The coordinated service through motor coach transportation as an auxiliary to railway operation is becoming a commonplace in the larger urban districts. The Public Service Corporation of New Jersey handled 26% of its passengers in 1925 on their auxiliary bus lines.

The future of the transportation systems appears brighter today than at any time in the past 15 years. Those companies whose management is progressive and alive to the needs of the communities they serve have an era of prosperity ahead of them.

Gas Industry

The gas industry is more keenly alive to its future possibilities than ever before, and it is at present actively engaged on a definite program of development of its residential and industrial service. The per capita use of gas has risen from 7,335 cubic feet in 1913 to 9,900 in 1925.

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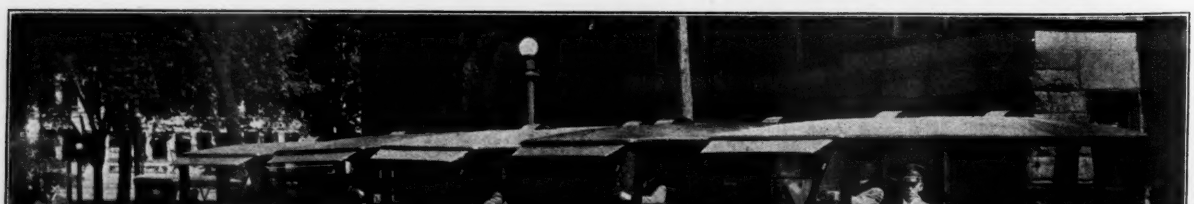

Part of the fleet of White Coaches operated by the Pennsylvania-Ohio Electric Ry. Co., Youngstown, Ohio

The Investment Position of Public Utility Securities

—Classes of Undervalued Utilities—

By WM. J. BLECH

FROM the depth of a securities depression in 1923, the public utility stocks shot forward into what proved to be a practically uninterrupted bull market to March, 1926. In that space of less than three years, the average of listed public utility stocks rose from about 120 to 220, or approximately 83%.

Listed public utility securities of the older school are largely operating companies, and it can be said safely that in the unlisted public utilities market the shares of the newer holding companies registered far more sensational gains. At present writing, after three months of alternate reaction and gain, the present listed stock average is about 200-205, or within hailing distance of the high quotations established at the crest of the bull market.

The so-called liquidation of public utility stocks proves to have been little other than the marked collapse of a few stocks which had been inflated beyond all reason, and a rather slight recession on the part of the great bulk of public utility stocks. As a matter of fact, public utilities were not inflated monstrously by comparison with industrials. Their rise in value, apart from several altogether exceptional instances, was midway between the hectic advance in the industrials and the rather pedestrian gains of the rails. Since the March deflation, the utilities have acted well, thus indicating that four-fifths of the gain made since the summer of 1923 is justified by long-term economic considerations.

With reference to public utility operating companies, it can be considered axiomatic that quotations on their stocks ought to be on the same basis, or even a better basis, than the rails. In a sense, a corporation such as *Brooklyn Edison* is a tax-gatherer. Its services are automatic and monopolistic within its territory. It is far less dependent for its revenues upon fluctuations in the income of the population than is the government itself. Additionally, it is in a field which has far from exhausted most of its potentialities, so that its growth at a rate faster than that of population and wealth seems assured. Since operating costs are not on the upgrade, and since regulation affords a reasonable basis for revenues there is every cause for maintaining that the stock of the Brooklyn Edison Co. is a quality stock.

Certainly there is no reason at all why *New York Central* or *Atchison* is to be construed more favorably. *Brooklyn Edison* has all of their economic virtues, and in addition has possibilities of speedier accretion in revenues. Hence a great deal of loose talk about deflation of the utilities ignored the premier investment quality that had come to characterize the very best of utility stocks.

The investment position of the holding company, is, of course, to be considered in another manner. It lives primarily out of dividends paid upon junior securities of the corporations it controls, plus, in many cases, fees for management. On the ground of diversification of risks, both as to number and as to geographical distribution, it is superior to the single operating company. In the matter of its receipts primarily from junior securities, it should at least rank with the junior securities of the best operating companies.

While the securities issued by it are in effect, primarily, collateral issues against stock-holdings in controlled corporations, nevertheless such collateral issues are often very superior. Of course the entire question here turns upon how many senior securities, such as bonds and preferred stock, have been issued against such collateral assets, and, secondly, how far these bonds and preferred stocks absorb the income derived by the holding company primarily from junior securities of the companies it controls. Obviously, then, the common stock of holding companies is, as a rule, just a notch lower in pure investment quality than is the common stock of a conservatively capitalized operating company.

But there is a compensation for the stockholder that at certain times acts as an offset to this slightly deferred position. That is to say, the comparatively small volume of holding company common stock is entitled to all of the residue of earnings of the controlled companies, over and above reasonable allocation to surplus, and often the disbursements that can be made from this source are almost fantastically large. It may be pleaded, and often

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TABLE I

Largest Electric Light and Power Companies Ranked According to Output in 1925

Rank	Company	Output Million Kw-hr.
1	Niagara Falls Power Co.	3,161
2	Commonwealth Edison Co. (Chicago)	3,091
3	Edison-United Cos., New York	2,263
4	Pacific Gas & Electric Co. (San Francisco)	2,001
5	Southern California Edison Co. (Los Angeles)	1,988
6	Detroit Edison Co.	1,732
7	Philadelphia Electric Co.	1,522
8	Public Service Electric & Gas Co. (New Jersey)	1,358
9	West Penn System (Pittsburgh)	1,317
10	Montana Power Co.	1,234

TABLE II

Largest Gas Companies Ranked According to 1925 Sales

Rank	Company	Sales in Million Cu. Ft.
1	Consolidated Gas Co. of N. Y.	41,772
2	Peoples Gas Light & Coke Co. (Chicago)	32,501
3	Brooklyn Union Gas Co.	20,392
4	Equitable Illg. Gas Lt. Co. (Philadelphia)	20,300
5	Public Service Elec. & Gas Co. (N. J.)	20,294
6	Detroit City Gas Co.	18,490
7	Pacific Gas & Electric Co. (San Francisco)	16,201
8	Consolidated Gas El. Lt. & Pr. Co. of Baltimore	10,373
9	Boston Consolidated Gas Co.	8,872
10	Laclede Gas Light Co. (St. Louis)	7,831

TABLE III

Largest Electric Railway Companies Ranked According to Passengers Carried in 1925

Rank	Company	Passengers (Millions)
1	Chicago Surface Lines	1,516
2	Interborough Rapid Transit Co. (N. Y.)	1,104
3	Phila. Rapid Transit Co.	914
4	Brooklyn-Man. Transit Co.	865
5	Detroit Municipal Ry. (Railway only)	481
6	Boston Elevated Railway	427
7	United Railways of St. Louis.	416
8	Public Service Ry. Co. (N. J.)	415
9	Cleveland Railway	388
10	Third Avenue Railway System (N. Y.)	344

Security Issues of Public Utilities, Railroads and Total Corporate Issues, 1912-1925

IN MILLIONS OF DOLLARS

	Total Corporate	Public Utilities	Per Cent of Corporate	Railroads	Per Cent of Corporate
1912	2,254	763	33.8	717	31.7
1913	1,646	438	26.6	816	49.6
1914	1,437	469	32.6	739	51.4
1915	1,435	323	22.5	645	44.9
1916	2,187	604	27.6	636	29.0
1917	1,530	342	22.3	439	28.7
1918	1,345	479	35.6	237	17.6
1919	3,021	550	18.2	332	11.0
1920	2,966	497	16.7	378	12.7
1921	2,390	671	28.1	655	27.4
1922	3,073	980	31.9	651	21.2
1923	3,233	1,138	35.3	518	16.1
1924	3,838	1,529	39.9	940	24.5
1925	4,738	1,725	36.5	515	10.7

Data from 1912 to 1919, inclusive, from New York Journal of Commerce; from 1920 to 1925 from Commercial and Financial Chronicle.

Continued from page 580)
is, that such a blessing may easily be turned into a curse. If the residual earnings should decline by a small amount, that will the more easily deprive the common stockholders of holding companies of any dividends whatsoever!

Theoretically that is true, but what we have now to face is an actual market situation in the stocks. The upward trend in gross revenues, accompanied by at least static operating costs per dollar of gross revenues, means that the public utility industry, especially electric and gas companies, is in a dynamic position, and that an upward curve is normal. For the next few years such accessions of earnings, translated marketwise, can mean nothing else than the favored position of common stock in conservatively organized holding companies.

Two things then are clear. The best quality of operating companies in the gas and electric industries ought to rank with the best stocks of any type whatsoever. And the best common stocks of conservative holding companies, combine a good position with speculative merit. Apart from general stock market cycles, then, the upward trend in value of these securities, all other things being equal, can be confidently expected.

The last position may seem to the captious to be too much hedged to have any value. But such hedging arises out of three important market situations. In the first place there is the important restriction of new capital requirements. It is well known that several of the strongest public utility holding companies are paying stock dividends, or small cash dividends in order to buttress their new capital position. The second limitation concerns quality of the companies. Some utilities, like some industrials and some rails, are less wisely managed than others. These corporations have at times followed mistaken and costly policies. They are a minority among holding companies; it would be accurate to say they are a small minority. A little training will acquaint the investor with them, and he can turn his attention to the others, at once. The third restriction, that of the general securities market, is introduced but not as a factor that will really militate against the future of the utilities. Just as the recent bear market reduced the average of utility common stocks by less than 10%, part of which loss was recovered almost immediately, so in the future the utilities may be expected to continue their comparatively independent course. But momentary deflections may take place. When the utilities are in a strong position, the tempo of their gains may be accelerated by an unusually active stock market. On the other hand, when the stock market is weak generally, it will temporarily arrest the rise in quotations, and may reduce them, at most by the percentage demonstrated by the break in March, 1926. Hence both exceptions may be ruled out. The long-term trend of high-grade utilities is upwards, fundamentally. From this position there can be no dissent.

The crucial question of new capital requirements is one that the average investor is gradually learning, and once having learned can never forget. The ratio of capital investment to annual returns is greatest in public utilities. Whereas in many industries gross annual sales exceed the capital investment, and in many instances, such as in retail stores, often are many times the capital invested, in public utilities the average investment is calculated variously, but rarely far away from four to five times annual gross revenues. This is not the whole story. If that were a static situation the investor could rule it out, and act marketwise as though it had no significance. But the expansion of public utilities is the real key to their investment policy. They must forever expand their activities, and in doing so must invest in the added facilities, from four to five times the amount of gross they can expect, say, within one year after completion of the new facilities. Hence the increase of assets is always expensive, and the fruits of the increase in earning power, frequently deferred. It is this capital requirement feature that has hitherto acted as a barrier to such extensive benefits in cash disbursements to common stockholders in holding companies, as is indicated by theory.

While this dilemma is a consequence of growth of the utilities, and while its

(*Please turn to page* 612)

Record of Public Utility Security Issues (Including Traction) 1906-1925

IN MILLIONS OF DOLLARS

PROPORTION OF FUNDED DEBT AND STOCKS

	Total	Funded Debt	Per Cent of Total	Stocks	Per Cent of Total
1906-7-8	920	704	76.45	216	23.55
1909-10-11	1,240	905	72.96	335	27.04
1912-13-14	1,546	1,248	80.70	298	19.30
1915-16-17	1,362	1,058	77.65	304	22.35
1918-19-20	1,497	1,326	88.68	171	11.42
1921	671	545	81.20	126	18.80
1922	980	678	79.18	302	30.82
1923	1,138	877	77.06	261	22.94
1924	1,529	1,008	65.91	521	34.09
1925	1,725	1,176	68.17	549	31.83
Total 20 Years	12,608	9,525	75.54	3,083	24.46

Data from 1906 to 1920 from Investment Bankers' Association of America Bulletin, May 28, 1921. Data from 1921 to 1925 from Commercial and Financial Chronicle.

Public Utility Security Suggestions

BONDS

1: FOR INCOME ONLY

Operating Companies

	Price	Yield
Commonwealth Edison "B" 5s, 1954	104	4.72
Central Illinois Light 1st 5s, 1943	102	4.83
New York Edison 6½s, 1941	117¼	4.85
Central Maine Power 5s, 1939	101	4.85
Connecticut Ry. & Lighting 4½s, 1951	94½	4.87
North Shore Electric 5s, 1940	101	4.90
Blackstone Valley Gas & Elec. "A" 5s, 1951	101	4.95
Indiana Natural Gas, 5s, 1936	100¼	4.97
Binghamton Light, Heat & Power 5s, 1946	100	5.00
Colorado Power 5s, 1953	100	5.00
Denver Gas & Electric 5s, 1949	100	5.00
Nashville Ry. & Lt. 1st 5s, 1953	100	5.00
Ogden Gas 5s, 1945	100	5.00
Alabama Power 1st & Ref. 5s, 1951	99¾	5.02
St. Louis County Gas "A" 5s, 1951	99½	5.03
New York Dock 4s, 1951	85	5.05
Indianapolis Gas 5s, 1952	99	5.05
Consumers Elec. Light & Power (New Orleans) 5s, 1936	99	5.15
New Amsterdam Gas, 5s, 1948	97½	5.19
Twin States Gas & Elec., 1st & Ref. 5s, 1953	97	5.20
Pacific Gas & Electric 1st 5½s, 1952	104¼	5.20
Wilmington Gas Co. 5s, 1949	96½	5.22
Laclede Gas 5½s, 1953	103⅝	5.25
Central Georgia Power 5s, 1938	97½	5.30
Burlington (Vt.) Gas Light 5s, 1955	95	5.32
Consol. Gas & Elec. Lt. & Power of Baltimore, 5½s, 1952	102¼	5.33
Seattle Lighting, Ref. 5s 1949	95	5.35
Los Angeles Gas & Elec. "G" 6s, 1942	106	5.45
United Fuel Gas 6s, 1936	103⅝	5.57
Wash. Coast Utilities 1st S. F. 6s, 1941	104	5.60
Kansas Gas & Electric 6s, 1952	105	5.68
Ohio Public Service 7s, 1947	111	6.05
Toledo Edison 1st 7s, 1941	108	6.15

2: FOR INCOME ONLY

Holding Companies

	Price	Yield
Western Union, 6½s, 1936	113	4.85
Southwestern Power & Light, 1st 5s, 1943	97¾	5.20
Massachusetts Gas Co., 5½s, 1946	103½	5.21
American Water Works & Electric, Coll. 5s, 1934	97½	5.40
Commonwealth Power, 6s, 1947	105	5.58
Public Service of N. J., 6s, 1944	103½	5.72
Standard Gas & Electric, 6s, 1935	101	5.86

BONDS *(Continued)*

3: FOR INCOME AND PROFIT

Operating Companies

	Price	Yield
Montr'l Tramways, Gen. & Ref. 5s, 1955	94	5.42
Georgia Ry. & Power, 6s, 1948	105	5.60
Gt. West'n P'w'r Co. of Cal. "C", 6s, 1952	105	5.63
Dallas Gas, 1st 6s, 1941	103½	5.66
N. Y. & Richmond Gas, 1st 6s, 1951	102⅝	5.80
Manhattan Ry., 4s, 1990	67¾	5.95
Brooklyn Manhattan Transit, 6s, 1968	97½	6.18
Phila. & Willow Grove St. Ry., 1st 4½s, 1934	88	6.45
Market St. Ry., 7s, 1940	97¼	7.37

4: FOR INCOME AND PROFIT

Holding Companies

	Price	Yield
Federal Light & Traction, 5s, 1942	96¼	5.32
Continental Gas & Elec., "A" 6s, 1947	102¾	5.77
Amer. Gas & Elec. Deb., 6s, 2014	100¾	5.96
American Power & Light Deb., 6s, 2016	100	6.00
Southeastern Power & Lt. "A" 6s, 2025 (ex-warrants)	95	6.31
Central States Electric Deb., 6s, 1945	96½	6.31
Lehigh Power Sec. Corp., Deb. 6s, 2026	94½	6.33
National Power & Light, Income 7s, 1972	104½	6.70

PREFERRED STOCKS

5: FOR INCOME ONLY

Operating Companies

	Price	Yield
Cleveland Elec. Illuminating 6%	109	5.50
Commonwealth Edison 8%	142	5.63
Blackstone Valley Gas & Elec. 6%	106	5.66
New York Telephone 6.5%	114	5.70
Rochester Gas & Elec. "C" 6%	103	5.82
Public Service of Northern Illinois 6%	101	5.94
Pacific Gas & Electric 6%	100	6.00
Dayton Power & Light 6%	100	6.00
Southern California Edison 6%	100	6.00
Southwestern Bell Telephone 7%	116	6.03
Col. Ry. Power & Lt. com. 1st pfd, 6%	99½	6.03
Los Angeles Gas & Electric 6%	98	6.12
Duquesne Light 7%	113½	6.16

PREFERRED STOCKS *(Continued)*

	Price	Yield
Mississippi River Power 6%	97	6.19
California Electric Generating 6%	96	6.25
Consumers Power 6.6%	105	6.29
Niagara, Lockport & Ontario 7%	111	6.30
Metropolitan Edison "C" 6%	95	6.31
Kentucky Utilities 6%	94½	6.33
Fort Worth Power & Light 7%	110	6.35
Long Island Lighting 7%	110	6.35
Consolidated Gas of Baltimore 8%	125	6.42
New Jersey Power & Light 7%	109	6.42
Wheeling Electric 6%	93	6.45
Pennsylvania Power & Light $7	108	6.48
Alabama Power 7%	108	6.48
Syracuse Lighting 7%	108	6.48
Nebraska Power 7%	107½	6.50
Birmingham Electric $7	107	6.54
Carolina Power & Light $7	107	6.54
Dallas Power & Light 7%	106	6.60
Idaho Power 7%	106	6.60
Kings County Lighting "B" 7%	106	6.60
Utica Gas & Electric 7%	106	6.60
Connecticut Light & Power "A" 8%	120	6.66
Northern Indiana Gas & Electric 7%	105	6.67
Minnesota Power & Light 7%	105	6.67
El Paso Electric Co. (Del.) "A" 7%	104	6.73
Kansas Gas & Electric 7%	103	6.78
Pacific Power & Light 7%	102	6.86
Toledo Edison Prior 8%	115	6.95
Elmira Water, Light & Ry. 7%	100	7.00
Iowa Ry. & Light 7%	100	7.00
Southwestern Power & Light 7%	95	7.37

6: FOR INCOME ONLY

Holding Companies

	Price	Yield
Electric Bond & Share 6%	108½	5.55
North American $3	51	5.88
Consol. Gas of N. Y. (restricted) $3.50	59	5.93
Philadelphia Co. $3	50	6.00
Columbia Gas & Electric 7%	115	6.08
North American Edison 6%	96	6.25
American Gas & Electric $6	94½	6.25
American Power & Light 6%	94	6.38
Public Service of N. J. 8%	119	6.72
Commonwealth Power 6%	87	6.89

7: FOR INCOME AND PROFIT

Operating Companies

	Price	Yield
Adirondack Power & Light 7%	106	6.60
Virginia Electric & Power 7%	105½	6.63
Hudson & Manhattan 5%	75	6.66
Central Illinois Public Service 6%	90	6.66

PREFERRED STOCKS *(Continued)*

	Price	Yield
Georgia Railway & Power 1st 7%	105	6.67
Jersey Central Power & Light 7%	105	6.67
Utah Power & Light 7%	103	6.78
Tennessee Electric Power 1st 7%	102½	6.83
Arkansas Light & Power 7%	102	6.86
Ohio Public Service 7%	100	7.00
Pennsylvania Electric 7%	99	7.07
Pennsylvania-Ohio Power & Light 7%	98	7.14
Penn.-Ohio Edison 7%	97	7.21
Brooklyn Manhattan Transit $6	84	7.21
North Carolina Public Service $7	96	7.29
Pennsylvania-Ohio Electric 7%	96	7.29
Vermont Hydro-Electric Part. 7%	96	7.29

8: FOR INCOME AND PROFIT

Holding Companies

	Price	Yield
Middle West Utilities $7	108	6.48
American Water Works & Electric 7%	107	6.54
Federal Light & Traction 6%	89	6.74
National Power & Light $7	102	6.86
Southeastern Power & Light $7	101	6.93
Continental Gas & Electric prior 7%	97	7.21
Utilities Power & Light 7%	95	7.36

COMMON STOCKS

9: Operating Companies

	Price	Div.	Yield
Philadelphia Electric	54	2	3.70
Brooklyn Union Gas	85	4	4.70
Con. Gas, Elec. Lt. & Power of Balt.	51	2½	4.90
Consolidated Gas of New York	101	5	4.95
Brooklyn Edison	143	8	5.59
Edison Elec. Illuminating of Boston	214	12	5.60
Commonwealth Edison	142	8	5.63
Detroit Edison	134	8	5.95
Public Service of North Illinois	133	8	6.01
Pacific Gas & Electric	129	8	6.20
Peoples Gas of Chicago	122	8	6.55
Hudson & Manhattan	38	2½	6.57

10: Holding Companies

	Price	Div.	Yield
American Light & Traction	222	8	3.60
United Gas Improvement	109	4	3.66
Federal Light & Traction	32	1.40	4.37
Commonwealth Power	37	2	5.40
Western Union Telegraph	145	8	5.51
Public Service of N. J.	86	5	5.81
Columbia Gas & Electric	82	5	6.09
American Telephone & Telegraph	140	9	6.42

Statistical Comparison of Public Utility Common Stocks

Listed N. Y. Stock Exchange

	$ Earned Per Share 1924	$ Earned Per Share 1925	$ 1st Quarter 1926	Dividends $ per Share 1924	Dividends $ per Share 1925	Current $ Rate	Recent Price	Yield (%)
All-America Cables	13.36	14.12	3.42	6¼	7	7	142	4.9
American Tel. & Tel.	11.31	11.79	3.02	9	9	9	140	5.0
American Power & Light	3.39	4.28	[1]4.56	[2]..	[3]..	[4]1	61	1.5
Amer. Water Works & Elec.	2.75	3.91	[5]4.17	..	[4]1.20	[4]1.20	58	2.0
Amer. & Foreign Power	0.50	[17]0.71	N.P.	..	..	..	21	..
Brooklyn Edison	11.81	10.00	N.P.	8	8	8	143	5.6
Brooklyn Manhattan	[6]3.23	[6]4.64	[7]5.00	..	..	4	63	6.4
Brooklyn Union Gas	9.14	6.30	N.P.	4	[4]4	[8]4	86	4.7
Columbia Gas & Elec.	4.41	5.38	2.41	2.60	2.60	5	82	6.1
Consolidated Gas of N. Y.	7.48	6.98	N.P.	5	5	5	102	4.9
Detroit Edison	9.97	10.67	4.12	8	8	8	134	5.9
Elec. Power & Light	[16]2.54	1.01	N.P.	..	..	..	20	..
Federal Light & Trac.	[19]2.87	[19]2.68	[19]1.07	[20]7	[20]1.40	[20]1.40	31	4.5
Gen. Gas & Elec.	1.79	3.17	[18]4.69	..	..	..	38	3.9
Havana Elec. Ry., Lt. & Power	11.21	12.45	N.P.	6	6	6	237	2.5
Hudson & Manhattan	3.33	3.81	1.13	..	..	2½	39	6.4
Interboro Rapid Transit	[6]Nil	[6]3.28	[9]5.28	..	..	..	40	..
International Tel. & Tel.	[14]18.11	[14]16.82	N.P.	6	6	6	123	4.9
Laclede Gas	15.35	15.38	N.P.	[11]8	10	8	157	5.1
Louisville Gas & Elec. "A"	2.17	3.86	[5]4.12	..	0.87½	1.75	24	7.3
Manhattan Ry.	[6]4.18	[6]3.06	N.P.	..	..	7	89	7.9
Manila Electric	4.01	4.79	N.P.	[10]6	2.37½	2	35	5.7
Market St. Railway	Nil	Nil	Nil	..	..	..	7	..
Montana Power	4.49	5.39	1.76	4	4	5	76	6.6
[19]National Power & Light	1.08	1.42	[23]1.48	3	6	0.40	23	1.7
Newp't News & Hampt. G. & E.	6.78	9.63	N.P.	5	5	5	110	4.6
Niagara Falls Power	2.43	2.51	0.55	3½	2	2	67	3.0
North American Co.	3.16	3.73	[12]3.35	[13]2.10	[13]2.10	[13]2.10	50	4.2
Omnibus Corp.	0.15	0.14	N.P.	..	..	..	16	..
Pacific Gas & Elec.	8.83	9.52	[16]4.46	8	8	8	123	6.3
Pacific Tel. & Tel.	0.80	9.03	1.80	..	6	7	120	5.8
Peoples Gas of Chicago	11.10	11.54	N.P.	7	8	8	121	6.6
Philadelphia Co.	5.91	7.10	1.90	4	4	4	71	5.6
Public Service Corp. N. J.	6.57	6.45	2.38	4¼	5	5	87	5.8
Radio Corp. of America	4.98	2.34	1.24	..	..	..	44	..
[21]Southern Calif. Edison	3.98	10.60	0.78	[22]8	[22]8	2	31	6.5
Standard Gas & Elec.	6.61	4.23	N.P.	2.87½	3	[15]3	55	5.5
Third Avenue R. R.	0.45	Def	N.P.	..	..	..	36	..
Twin City Rapid Transit	4.81	3.76	1.80	4	4	5	72	6.9
United Railways Investment	Nil	Nil	N.P.	..	..	..	25	..
Utilities Pow. & Light "A"	7.97	3.82	N.P.	..	..	2	31	6.5
West Penn Elec. "A"	[24]	[24]	[24]	..	..	7	95	7.4
Western Union Telegraph	12.36	15.20	3.42	7	7	8	147	5.4

1 Full year ended Feb. 28, 1926.
2 7½% in cash and 2% in stock on 100 par value; new stock (exchanged 10 for 1) paid 25c in cash and 1/50th share common stock.
3 $1 in cash and 1/25th share in common stock.
4 Plus common stock.
5 12 months ended April 30, 1926.
6 Year ended June 30.
7 Earned in 11 months ended May 31, 1926.
8 Also paid special dividend of $7.
9 Earned in 10 months ended April 30, 1926.
10 Paid on stock of $100 par value.
11 Includes 1% extra.
12 Year ended March 31, 1926.
13 Represents cash dividend; if desired, stockholders may receive 1/10th share common stock.
14 Including non-recurrent income.
15 Plus 2/50th of a share in common stock.
16 Before depreciation.
17 12 months ended June 30, 1925.
18 12 months ended May 31, 1926.
19 Earnings figured on present capitalization.
20 Paid partly in preferred stock.
21 Stock split up in 1926 4 for 1.
22 On old $100 par stock.
23 12 months ended Feb. 28, 1926.
24 New consolidation.
N.P.—Not published.

Common Stock (No Par Value)

Pacific Steel Boiler Corporation

(Full Voting Privileges)

LISTED ON NEW YORK CURB MARKET

This Corporation, one of the largest makers of domestic and commercial steel boilers in the world, has declared an initial quarterly dividend at the annual rate of $1.00 per share.

At present price the Common Stock yields approximately

8%

An exhaustive analysis will be sent on request.

NOYES & JACKSON

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42 Broadway New York

STANDARD OIL ISSUES

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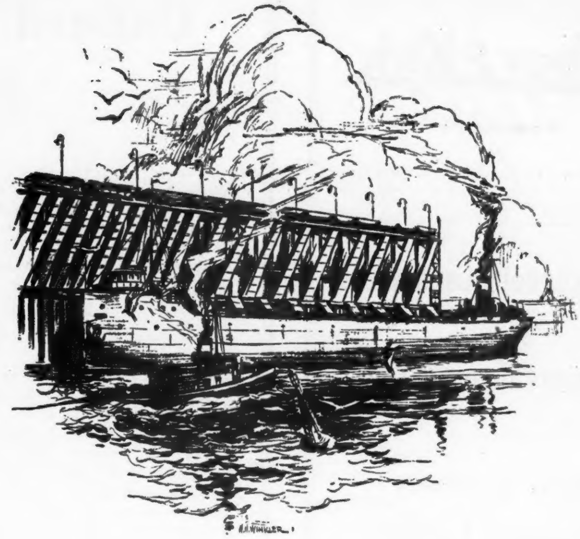

A GREAT LAKES FREIGHTER is loaded with copper ore in northern Michigan . . . a sheep is shorn in West Texas . . . a home is lighted in New Hampshire or Illinois or Louisiana . . . oil is pumped from a well in Oklahoma . . . a loom operates in a New England textile mill . . . coal is mined in Kentucky . . . a farmer's wife in Wisconsin makes toast for breakfast . . .

IN THESE AND COUNTLESS OTHER tasks, large and small, the subsidiaries of the Middle West Utilities Company participate daily, providing essential services in New England, in the Middle West and in the Southwest.

Widely diverse geographical sections and an almost unlimited variety of economic activities are served by the operating companies of the Middle West Utilities Company. The system as a whole is thereby protected from temporary sectional or occupational depression, while contributing to and sharing in the prosperity of 1654 communities in nineteen states.

MIDDLE WEST UTILITIES COMPANY

72 West Adams Street · Chicago

Securities of the Middle West Utilities Company are listed on the Chicago Stock Exchange. Ask your investment banker about the Preferred and Prior Lien issues.

Unlisted Utility Bond Index

Holding Companies

	Investment Grade	Bid Price	Asked Price	Yield
American Gas & Electric 6s, 2014	B	100¼	100¾	5.96
American Power & Light 6s, Series A, 2016	B	99	100	6.00
Continental Gas & Electric 6s, 1947	B	102	102¾	5.77
National Power & Light, Inc., 7s, 1972	B	103¼	104¼	6.70
Southwestern Power & Light 1st Mtge. 5s, 1943	B	97¼	97¾	5.20

Power Companies

	Investment Grade	Bid Price	Asked Price	Yield
Alabama Power Co. 1st Ln. & Ref. 6s, 1951	A	104½	105¼	5.60
Appalachian Power Co. 1st 5s, 1941	A	100¾	101½	4.86
Arizona Power 1st 6s, 1933	A	100½	101½	5.75
Binghamton Lt., Heat & Power 1st Ref. 5s, 1946	B	99¾	100½	4.96
Central Ga. Power Co. 1st 5s, 1938	B	98	99	5.11
Consumers El. Lt. & Pwr. New Orleans, 1st 5s, 1936	B	98½	100	5.00
Great Western Power Co. 1st Ref. 6s, 1952	A	104¼	105	5.63
Idaho Power Co. 5s, 1947	A	99½	100½	4.96
Illinois Power & Light 1st & Ref. 6s, 1953	B	103½	104½	5.67
Kansas Electric Power 1st Series A, 6s, 1937	B	104¼	105	5.39
Memphis Power & Light 5s, 1948	A	100½	101¼	4.90
Mississippi River Power 1st 5s, 1951	A	100¾	101½	4.89
Nebraska Power Corp. 1st 6s, 1949	A	104¾	...	5.63
Nevada-California Electric 1st 6s, 1946	B	102¾	103½	5.70
New Jersey Power & Light 1st 5s, 1936	B	98¾	99½	5.06
Niagara Falls Power 1st & Cons. Mtge. 6s, 1950	A	106	107	5.48
Ohio Power Co. 1st Ref. 7s, 1951	A	106	106¾	6.44
Puget Sound Power & Light 5½s, 1949	A	100¾	101½	5.38
Tennessee Power Co. 1st 5s, 1962	A	98	99	5.06
Texas Power & Light Co. 1st 5s, 1937	A	99¾	100½	4.95
Virginia Power Co. 1st 5s, 1942	B	100	101	4.91
Washington Coast Utilities 1st Mtge. 6s, 1941	B	102½	103½	5.65
Yadkin River Power 1st Mtge. 5s, 1941	A	100¾	101¾	4.83

Gas and Electric Companies

	Investment Grade	Bid Price	Asked Price	Yield
Burlington Gas & Light 5s, 1955	B	96	96¾	5.22
Cons. Cities Light, Power & Traction 1st 5s, 1962	B	82	83	6.17
Dallas Power & Light 6s, 1949	A	105	106	5.53
Gas and By-Products Co., 1st lien & coll. 7s, 1939	B	97½	99	7.12
Indianapolis Gas Co. 1st 5s, 1952	B	99	99¾	5.02
Oklahoma Gas & Electric 5s, 1950	A	95	95¾	5.31
Pacific Gas & Electric 1st & Ref. 5½s, 1952	A	104	104½	5.18
Portland Gas & Coke 1st 5s, 1940	B	99½	100½	4.95
Seattle Lighting Co. Ref. 5s, 1949	B	94½	95½	5.34
Tri-City Railway & Light 5s, 1930	B	98¾	99½	5.14
Twin State Gas & Electric Ref. 5s, 1953	A	97	98	5.13
United Light & Railways 6s, 1952	B	101¼	102¼	5.83
Wilmington Gas Co. 5s, 1949	B	96	97	5.22

Traction Companies

	Investment Grade	Bid Price	Asked Price	Yield
Brooklyn City & Newton 1st 5s, 1939	B	82½	..	7.08
Columbus Street Railway 1st 5s, 1932	B	95½	97	5.89
Galveston-Houston Electric Railway 1st 5s, 1954	B	62	64¾	8.21
Georgia Light, Power and Railway 5s, 1941	A	89	92½	5.74
Nashville Railway & Light 5s, 1953	B	98	99	5.07

Telephone and Telegraph Companies

	Investment Grade	Bid Price	Asked Price	Yield
Chesapeake & Potomac Tel. Co. (Va.) 1st 5s, 1943	A	100¾	102¾	4.77
Home Tel. & Tel. Co. of Spokane 1st 5s, 1936	A	100	101	4.87
Ohio State Telephone Co. Ref. 5s, 1944	A	101	102	4.83
Southern California Telephone 1st & Ref. 5s, 1947	A	100¼	101¼	4.90

Yield computed at the asked price. Average yield 5.38%.

Business Continues Fairly Active

Seasonal Slackening Not Severe as Demand Holds Up—Prices Firmer

STEEL

New Buying Increases

THE close of the first half of the year has brought forth the fact that production was the greatest on record. Probably, the record for consumption during this period was equally satisfactory. From this, however, it is not to be taken that production or consumption during the second quarter was as good as the first. Present production for the industry is about 80%, comparing with nearly 90% during the earlier months. During the past month, however, new demand has been stimulated and in some cases the increases amount to 50%. It is to be doubted that this record can be equalled in July and August. Some of the new buying recently reported has been for replenishment purposes and will undoubtedly slacken in the near future. Another factor is that the increase in price of certain products has driven in some business, but that consumers are beginning to doubt whether the present price level can hold, and are holding back from making new commitments. While reces-

(*Please turn to page* 630)

COMMODITIES*

(See Footnote for Grades and Unit of Measure)

	1926 High	1926 Low	*Last
Steel (1)	$35.00	$35.00	$35.00
Pig Iron (2)	20.00	18.00	18.00
Copper (3)	0.14⅜	0.13¾	0.13⅞
Petroleum (4)	3.65	3.65	3.65
Coal (5)	2.17	1.87	1.87
Cotton (6)	0.21	0.18	0.18½
Wheat (7)	2.10	1.59	1.59
Corn (8)	0.81½	0.69	1.71
Hogs (9)	0.14⅜	0.11⅝	0.14⅜
Steers (10)	0.11	0.09¾	0.10¼
Coffee (11)	0.20⅛	0.17⅝	0.19⅞
Rubber (12)	0.98	0.43	0.44
Wool (13)	0.54	0.43	0.44
Tobacco (14)	†0.19	†0.19	†0.19
Sugar (15)	0.04¼	0.04	0.04⅛
Sugar (16)	0.05⅝	0.05⅛	0.05⅝
Paper (17)	0.03¾	0.03⅛	0.03½

*July 3.

(1) Open hearth billets, $ per ton; (2) Basic Valley, $ per ton; (3) Electrolytic, c. per pound; (4) Pennsylvania, $ per barrel; (5) Pittsburgh, mine run, $ per ton; (6) Spot, New York, c. per pound; (7) No. 2 red, New York, $ per bushel; (8) No. 3 Yellow, Chicago, $ per bushel; (9) Light, Chicago, c per pound; (10) Top, Heavies, Chicago, c. per lb.; (11) Rio, No. 7, Spot, c. per lb.; (12) First Latex crepe, c. per lb.; (13) Ohio, Delaine, unwashed, c. per lb.; (14) Medium Burleigh, Kentucky, c. per lb.; (15) Raw Cubas, 96° Full, Duty, c. per lb.; (16) Refined, c. per lb.; (17) Newsprint per carload roll, c. per lb. †Change from 1924 to 1925 crop.

THE TREND IN MAJOR INDUSTRIES

STEEL—Mill operations show prospects of continuing at a slightly higher rate than the average for this season of the year. Tonnage for first half of year, with June estimated, is 1 million tons in excess of the record for this period. Industry is now operating at about 80% of capacity.

PETROLEUM—Production running 7% less than last year and consumption 15% higher. Stocks of gasoline continue large with a tendency to weaken prices. Kerosene is lowering, while crude oil remains stable.

METALS—Copper shows tendency to stabilize around 13⅞ cents, induced by increasing domestic demand and relatively small stocks in hand, which exist even in the face of increased production.

MOTORS—Industry optimistic for second half of the year. July production will be smaller in both cars and trucks, particularly in view of the seasonal period of inventory and model changes.

CHEMICALS—Tone of the market in heavy chemicals remains firm with prices slightly above last year's levels at this time. Insecticides are no more than seasonal, the late emergence of the weevil being a delaying factor.

LEATHER—Hide prices show firmness and general feeling of the trade is improved, although no radical improvement is anticipated for the succeeding two weeks while shoe industry is engaged in inventory.

PAPER—Consumption is holding up well in the face of the usual decline at this time of the year. Prices are firm but are expected to lower seasonally except newsprint which plans to maintain its $65 contract level.

ELECTRICAL EQUIPMENT—While sales for the first six months may not come up to the first half of last year, the volume continues in gratifying proportions with no prospects of diminishing materially. Central station supplies and heavy power equipment are in demand in New England. On the Pacific Coast there is heavy buying for industrial plants and utilities.

SUMMARY—Whereas some slackening of trade is to be expected at this season, indications are that it will materialize later than usual in the majority of lines. The feeling in most trades is essentially one of restrained optimism.

New York Stock Exchange

RAILS

	Pre-War Period 1909-1913		War Period 1914-1918		Post-War Period 1919-1925		1926		Last Sale	Div'd $ Per
	High	Low	High	Low	High	Low	High	Low	7/7/26	Share
Atchison	125⅝	90¼	111¼	70	140½	91⅜	140⅝	122	138	7
Do. Pfd.	106¾	96	102⅛	75	98	72	100	94⅛	†97⅞	5
Atlantic Coast Line	148½	102½	126	79⅞	268	77	262½	181⅛	222½	‡7
Baltimore & Ohio	122¼	90⅝	96	88¼	94½	27⅝	96½	83½	94⅝	5
Do. Pfd.	96	77¼	80	48¼	67¾	38½	71½	67½	71	4
Bklyn-Man. Transit	..	..	..	..	64	9¼	69¼	54⅛	53	4
Do. Pfd.	..	..	..	..	83¾	31⅜	86¼	78	84⅞	6
Canadian Pacific	283	165	220⅛	126	170⅞	101	165⅞	146½	164¾	10
Chesapeake & Ohio	92	51⅛	71	35⅝	130½	46	140½	112	139	‡8
Do. Pfd.	..	..	..	..	130	96	139½	119	†138	6½
C. M. & St. Paul	165⅛	96¾	107⅛	35	52¾	3¼	14½	9	11	..
Do. Pfd.	181	130½	143	62½	76	7	22¼	14⅛	18½	..
Chi. & Northwestern	198½	123	136⅞	35	105	45⅞	81⅞	65¼	72¾	4
Chicago, R. I. & Pacific	..	..	45¾	16	58⅞	19⅛	60¾	40½	54⅝	..
Do. 7% Pfd.	..	..	94¾	44	105	64	101¼	96	98½	7
Do. 6% Pfd.	..	..	80	35¾	93¾	54	90	83¼	†87¼	6
Delaware & Hudson	200	147½	159⅛	87	160¾	83¼	174¼	150¼	†163¼	9
Delaware, Lack. & W.	340	192½	242	160	260½	93	153½	129	141½	‡6
Erie	61¼	33½	59½	18¾	39½	7	40	22½	37⅞	..
Do. 1st Pfd.	49¾	26¼	54¾	15⅛	49¼	11⅛	46¾	33¾	46⅜	..
Do. 2nd Pfd.	89⅛	19½	45⅝	13⅛	46¼	7⅛	44¾	30	44⅜	..
Great Northern Pfd.	157⅞	115½	134¾	79¼	100⅝	50⅝	78⅝	68½	74	5
Hudson & Manhattan	..	..	..	..	38⅜	20⅝	40	35	38½	2½
Illinois Central	162⅛	102¾	115	85¾	125½	80⅞	124	113½	121½	7
Interboro Rap. Transit	..	..	..	..	39¼	9½	52¼	24½	42	..
Kansas City Southern	50¼	21⅜	35⅛	13½	51	13	49⅜	34½	44¾	..
Do. Pfd.	75½	56	65½	40	63¼	40	66½	60⅝	66⅜	4
Lehigh Valley	121¼	62½	87⅛	50⅝	88⅛	39½	89⅜	75½	87½	3½
Louisville & Nashville	170	121	141⅞	103	155	84¾	143	118	136	‡6
Mo., Kansas & Texas	*51⅛	*17½	*24	*3⅛	45½	*¾	47⅛	32	37¾	..
Do. Pfd.	*78¼	*46	*60	*6½	92½	*2	95	82	92	6
Missouri Pacific	*77½	*21½	38⅛	19⅞	41¾	8¼	40¼	27	37⅛	..
Do. Pfd.	..	..	64⅞	37½	91½	22¼	89½	71½	87¾	..
N. Y. Central	147¾	90⅝	114¼	62½	137½	64⅛	135⅝	117	131¼	7
N. Y., Chi. & St. Louis	109¾	90	90¾	55	183	23¾	185	130	184½	11
N. Y., N. H. & Hartford	174¾	65⅝	89	21½	47	9⅝	46¼	30⅝	45	..
N. Y., Ontario & W.	55⅜	25⅛	35	17	34¾	14¼	28⅞	19¾	24½	..
Norfolk & Western	119¼	84¼	147⅛	92⅝	151⅜	84¼	157⅞	139¼	154½	‡7
Northern Pacific	159½	101¾	118⅞	75	99⅞	47⅞	76½	65¾	73⅛	5
Pennsylvania	75⅝	53	61½	40¼	53⅜	32¼	55⅛	48⅝	53⅝	3
Pere Marquette	*36½	*15	38⅛	9½	85½	12⅛	100	67	99¾	6
Pittsburgh & W. Va.	..	..	40⅜	17¾	123	21⅛	119⅜	85	†109	..
Reading	89⅝	59	115½	60⅛	108	51⅞	97⅞	79	95½	4
Do. 1st Pfd.	46¾	41¼	46	34	61	32⅞	42	40	†40¼	2
Do. 2nd Pfd.	58¾	42	52	33¾	*65	32⅛	44⅞	40	42	2
St. Louis-San Fran.	*74	*13	50½	21	102¼	10¾	101¼	85	97¼	7
St. Louis Southwestern	40⅜	18½	32⅛	11	69¼	10⅞	74	57½	67⅞	..
Seaboard Air Line	27½	13¼	22⅜	7	54¼	2⅛	51	27½	34	..
Do. Pfd.	56½	23½	58	15⅛	51½	3	48⅜	31½	36½	..
Southern Pacific	139⅛	83	110	75¾	118⅛	67½	105⅝	96⅛	104	6
Southern Railway	34	18	36¾	12½	120½	24¾	120	103⅝	119½	7
Do. Pfd.	86⅞	43	85¼	42	95½	42	92⅞	87½	92⅝	5
Texas & Pacific	40½	10¼	29½	6½	70½	14	61⅝	42⅛	53¼	..
Union Pacific	219	137¾	164⅜	101¼	154¾	110	156½	141½	155	10
Do. Pfd.	118½	79¾	86	69	80	61¼	80	74¾	79⅝	4
Wabash	*27⅞	*2	17½	7	47¼	6	52	33⅞	47½	..
Do. Pfd. A	*61¾	*6⅛	60½	30⅞	73⅞	17	78¾	68	75	5
Do. Pfd. B	..	..	32⅞	18	60½	12¼	72	57	†62	..
Western Maryland	*56	*40	23	9¼	18⅜	8	16⅝	11	13½	..
Do. 2nd Pfd.	*88¼	*53½	*58	20	*30	11	24	18¾	22	..
Western Pacific	..	..	25½	11	40	12	39¼	33¼	35¼	..
Do. Pfd.	..	..	64	35	86½	51½	83½	77½	82	6
Wheeling & Lake Erie	*12⅞	*2½	27⅜	8	32	6	32	18	23⅝	..
Do. Pfd.	..	..	50⅝	16⅝	53½	9¼	50½	37	33¼	..

INDUSTRIALS

	Pre-War High	Pre-War Low	War High	War Low	Post-War High	Post-War Low	1926 High	1926 Low	Last Sale 7/7/26	Div'd $ Per Share
Adams Express	270	90	154¼	42	117¼	22	116¼	99⅞	114	6
Ajax Rubber	..	..	89⅛	45⅛	113	4¼	16	7½	9¼	..
Allied Chem. & Dye	..	..	..	..	116⅝	34	142	106	131⅛	4
Do. Pfd.	..	..	..	..	121¼	83	122⅛	118¾	121½	7
Allis-Chalmers Mfg.	10	7⅝	49⅛	6	97¼	26½	94½	78¼	90	6
Do. Pfd.	43	40	92	32½	109	67½	110⅛	105	109¼	7
Am. Agric. Chem.	63⅝	33½	106	47¾	113¾	7⅛	34⅞	15	18⅛	..
Do. Pfd.	105	90	103⅛	89⅛	103	18¾	96⅛	51	65	..
Am. Beet Sugar	77	19¾	108½	19	103¾	24⅛	38¾	21	†23¾	..
Am. Bosch Magneto	..	..	..	..	143⅞	28	34⅝	16	20½	..
Am. Can	47⅞	6⅞	68½	19¼	*297⅞	*21¾	58	38⅞	56⅝	2
Do. Pfd.	129¼	98	114½	80	121⅞	72	126¼	121	†125	7
Am. Car & Foundry	76½	36½	98	40	*201	97½	114⅞	91⅛	99¼	6
Do. Pfd.	124¾	107½	119⅛	100	128	105¾	129¼	123½	†127	7
Am. Express	300	94¾	140½	77½	17	76	140	105⅞	129	6
Am. Hide & Leather	10	3	22⅛	2⅛	43⅛	5	17⅛	7	†8¼	..
Do. Pfd.	51⅞	15⅛	94⅞	10	142⅞	29¾	67¼	33⅛	†41	..
Am. Ice	..	..	49	8⅞	139	37	186	109	134¾	‡8
Am. International	..	..	62¾	12	132¼	17	46¾	33¾	36	..
Am. Linseed Pfd.	47¾	20	92	24	113	4¼	87	75	†77	7
Am. Locomotive	74¾	19	98¼	46⅝	144⅞	58	119⅞	90¼	104¼	8
Do. Pfd.	122	75	109	93	124	96½	120¼	116¼	116½	7
Am. Metal	..	..	..	..	57⅝	38¾	57⅞	47	54⅛	4
Am. Radiator	*500	*200	*445	*235	*345	64	120¾	101¼	109¾	4
Am. Safety Razor	..	..	..	..	76¾	*3½	63	42	49⅛	3
Am. Ship & Commerce	..	..	..	..	47½	4⅝	11⅞	5⅛	9¾	..
Am. Smelt. & Ref.	105½	56⅝	123¾	50¼	144½	29¼	144¾	109⅝	133⅛	7
Do. Pfd.	116¾	98¼	118⅞	97	115¼	63¼	119	112⅞	118	7
Am. Steel Foundries	74⅛	24⅛	95	44	50	18	46⅞	40	42	3
Do. Pfd.	..	..	..	..	113⅛	78	115	111	114	7
Am. Sugar Refining	136⅝	99⅞	126½	89⅛	143⅜	36	82¾	65¼	†69	5
Do. Pfd.	133⅛	110	123½	106	119	67⅛	105	100	101	7
Am. Sumatra Tobacco	..	..	145¾	15	120½	6	17⅞	18¼	†16½	..
Am. Tel. & Tel.	153⅝	101	134⅛	90⅝	145	92⅛	150¾	139⅝	141	9

Price Range of Active Stocks

INDUSTRIALS—*Continued*

	Pre-War Period[a] 1909-1913 High	Low	War Period 1914-1918 High	Low	Post-War Period 1919-1925 High	Low	1926 High	Low	Last Sale 7/7/26	Div'd $ Per Share
Am. Tobacco	*530	*200	*256	*123	*314½	82⅛	121⅝	111⅜	120¼	8
Do. Com. B	..	..	..	..	*240	81¼	120½	110⅛	119	8
Am. Water Works & Elec.	..	..	..	..	*144	*4	74	43¾	59	1.20
Am. Woolen	40⅝	15	60⅞	12	169½	34¾	42⅞	19	23⅞	..
Do. Pfd.	107¾	74	102	72½	111⅞	69½	89¾	66	72½	7
Anaconda Copper	54⅜	27⅛	105⅜	24¼	77⅞	28½	51	41½	47	3
Associated Dry Goods	..	..	28	10	*140½	46½	54⅞	37¼	41¼	2½
Do. 1st Pfd.	..	..	75	50½	102	49⅞	102½	96	†98	6
Do. 2nd Pfd.	..	..	49½	35	108	38	108	102	†102	7
Associated Oil	..	..	*78¾	*52½	*142	24⅞	59½	44¾	53	‡2
Atl. Gulf & W. Indies	13	5	147¾	4½	192⅝	9¼	68⅜	33⅛	43	..
Do. Pfd.	32	10	74¾	9⅞	76½	6¾	56¼	35¼	32⅝	..
Atlantic Refining	..	..	..	..	*1575	78½	128⅜	97	117⅛	..
Austin Nichols	..	..	..	..	40⅜	8	28	11	13¾	..
Do. Pfd.	..	..	..	..	95	50⅝	93	75	†74¾	7
Baldwin Locomotive	60¾	36½	154½	26⅝	156¼	62¼	136½	92⅞	115⅝	7
Do. Pfd.	107½	100¼	114	90	118	92	114	105	†110	7
Bethlehem Steel	*51⅝	*18¾	155½	59¾	112	37	50¼	37¼	45¾	..
Do. 7% Pfd.	80	47	186	68	108	78	105	99	103¼	7
Brooklyn Edison Electric	134	123	131	87	156½	82	146½	133	143	8
Brooklyn Union Gas	164½	118	138¾	78	*128	41	87	68	85	4
Burns Brothers	45	41	161½	50	147	76	141¼	121	137	10
Do. B	..	..	..	..	53	17	44	29⅞	†36¾	2
Butte & Superior	..	..	105¼	12¼	37⅞	6½	16¼	7⅛	10	2
California Packing	..	..	50	30	136½	48¼	179½	121¼	138	8
California Petroleum	72½	16	42⅝	8	71⅞	15⅜	58⅛	30⅝	54½	2
Central Leather	51¾	16½	123	25⅞	116½	9⅝	20½	7⅛	9¼	..
Do. Pfd.	111	80	117½	94⅞	114	28½	68¾	43¼	55	..
Cerro de Pasco Copper	..	..	55	25	67½	23	69¼	57½	65¼	4
Chandler Motor	..	..	109⅞	56	141¼	26⅞	26	11¾	†12	..
Chile Copper	..	..	39¼	11¼	38⅜	7	36⅜	30	32⅞	2½
Chino Copper	50⅜	6	74	31⅜	50⅞	14¾	23	16	†21	..
Chrysler Corp.	..	..	..	..	*253	*108¼	54⅞	28½	36	3
Do. Pfd.	..	..	..	..	111⅞	100⅛	108	93	102	8
Coca Cola	..	..	..	..	177¾	18	163	128	156⅛	7
Colorado Fuel & Iron	53	22½	66½	20½	56	20	46⅜	27⅜	45⅛	..
Columbia Gas & Elec.	..	..	54⅛	14¼	*114⅞	30¼	90	63⅛	83¼	5
Congoleum-Nairn	..	..	..	..	*184⅜	15⅞	23⅝	12½	23	..
Consolidated Cigar	..	..	..	..	80	11⅜	68	45¼	65¼	..
Consolidated Gas	*165¼	*114½	*150½	*112½	*145¾	56¾	104½	87	103⅝	5
Continental Can	..	..	*127	*37½	*131¾	34⅜	92½	70	82½	‡5
Corn Products Refining	26½	7⅜	50½	7	*160½	21⅛	48⅜	35⅝	45	‡2
Do. Pfd.	98½	61	113½	58⅛	127	96	129⅛	122½	†125	7
Crucible Steel	19⅝	6½	109⅞	12¼	278½	48	81½	64	74	5
Cuba Cane Sugar	..	..	76⅜	24⅞	59⅜	5⅝	11½	8⅝	8¾	..
Do. Pfd.	..	..	100½	77¼	87	13⅛	49⅝	35½	39	..
Cuban-American Sugar	*58	33	*273	*38	*605	10⅞	30⅜	24	25⅝	2
Cuyamel Fruit	..	..	..	..	74½	44	51	42⅛	†46¾	4
Davison Chemical	..	..	..	..	81¼	20⅜	46¾	27⅛	41⅜	..
Dupont de Nemours	..	..	..	..	271¼	105	248⅜	193⅛	246	‡10
Eastman Kodak	*No Sales		*605	*605	*690	70	114⅛	106⅝	113	‡5
Electric Storage Battery	*64¼	*42	*78	*42¼	*153	37	86⅜	71⅛	†84½	‡5
Endicott-Johnson	..	..	..	..	150	44	72⅝	65½	66⅜	5
Do. Pfd.	..	..	..	..	119	84	118	114	†114⅞	7
Famous Players-Lasky	..	..	..	..	123	40	127½	103⅛	115⅞	10
Do. Pfd.	..	..	..	..	120	66	124	115	120⅝	8
Fisher Body	..	..	43	25	*240	60¼	105¾	78¼	100⅛	5
Fisk Rubber	..	..	..	..	55	5⅛	26¼	14¼	18½	..
Do. 1st Pfd.	..	..	..	..	116⅛	38⅛	84¼	76⅞	†100	7
Fleischmann Co.	..	..	..	..	*171½	*75	56½	32¼	49	‡2
Foundation Co.	..	..	..	..	183¾	58½	179¾	85	102⅛	8
Freeport-Texas	..	..	70½	25¾	64⅜	7½	34½	19⅝	33¼	..
General Asphalt	42⅞	15½	39⅜	14¼	160	23	74⅜	50	73⅜	..
General Cigar	..	..	..	..	115¼	47	59½	46	54⅜	4
General Electric	188½	129¾	187¼	118	337¼	109½	386½	285	346	8
General Motors	*51¾	*25	*850	*74½	149¾	*8⅛	151½	113¼	150	‡7
Do. 7% Pfd.	..	..	..	..	115	95⅛	120	113½	117	7
General Petroleum	..	..	..	..	59⅛	38⅜	70⅛	49½	69	3
Goodrich (B. F.) Co.	86½	15½	80¼	19⅝	93⅜	17	70¾	45½	49	4
Do. Pfd.	109¾	73⅜	116¾	79⅞	109½	62½	100	95	†96	7
Goodyear T. & R. Pfd.	..	..	..	..	114⅝	35	109¾	98½	105	7
Do. prior Pfd.	..	..	..	..	109	88	108⅝	105⅜	†107½	8
Granby Consolidated	78¼	26	120	58	80	12	23½	16⅛	20½	..
Great Northern Ore Ctfs.	88½	25½	50⅜	22½	52¾	24⅞	27¼	19	21	1¾
Gulf States Steel	..	..	137	58¾	104⅝	25	93⅜	62	79	5
Hayes Wheel	..	..	..	..	52⅞	30	46	30¼	35	‡3
Houston Oil	25½	8¼	86	10	116½	40½	72	50¼	60⅜	..
Hudson Motor Car	..	..	..	..	139½	19½	123¼	49⅝	51¾	3½
Hupp Motor Car	..	..	11¾	2½	31	4⅝	28⅜	17	23⅛	1
Inland Steel	..	..	..	..	50	31⅛	43½	34½	42¾	2½
Inspiration Copper	21⅝	13⅞	74¾	14¼	68⅞	22⅛	26⅞	20¾	23½	2
Inter. Business Mach.	..	..	52⅝	24	176¼	28¾	48½	38⅛	48	3
Inter. Combustion Eng.	..	..	..	..	69½	19⅝	64½	33½	51½	2
Inter. Harvester	..	..	121	104	149⅝	66¾	134½	112¼	†122	6
Inter. Merctl. Marine	9	2⅛	50⅝	⅝	67¾	4⅞	12⅜	7	7⅞	..
Do. Pfd.	27⅝	12½	125⅝	8	128½	18½	46⅜	27	35½	..
Inter. Nickel	*227¼	*135	57½	24½	48½	24¼	46¼	32⅜	37½	2
Inter. Paper	19¾	6½	75½	9½	91¾	27⅞	63⅜	44⅛	53½	2
Kelly-Springfield Tire	..	..	85¼	36⅞	164	9¾	21½	12¼	14	..
Do. 8% Pfd.	..	..	101	72	110	33	74¾	61	†53	..
Kennecott Copper	..	..	64¼	35	59¼	14⅝	58⅞	49¾	54¼	4
Kinney (G. R.) Co.	..	..	..	..	103	35½	82⅛	61	69	4
Lima Locomotive	..	..	..	..	74⅞	52	69¾	53½	62⅛	4
Loew's, Inc.	..	..	..	..	44¾	10	41	34¼	37⅝	2
Loft, Inc.	..	..	..	..	28	5½	11¼	7	7¼	..
Lorillard (P.) Co.	*215½	*150	*239⅞	*144½	*245	30¼	42¼	35¼	39¼	3
Mack Trucks	..	..	..	..	242	25½	159	103½	119⅜	6
Magma Copper	..	..	..	..	46	26⅛	44⅞	34	38¼	3
Mallinson & Co.	..	..	..	..	45	8	28⅛	15⅝	18½	..
Maracaibo Oil Explor.	..	..	..	..	37½	16	28⅞	20¾	26¼	..
Marland Oil	..	..	..	..	60½	12⅛	63⅜	49¼	61½	4

New York Stock Exchange

Price Range of Active Stocks

INDUSTRIALS—*Continued*

	Pre-War Period 1909-1913		War Period 1914-1918		Post-War Period 1919-1925		1926		Last Sale 7/7/26	Div'd $ Per Share
	High	Low	High	Low	High	Low	High	Low		
May Department Stores	*88	*65	*97½	*35	*174¾	*60	137½	106⅞	117	5
Mexican Seaboard Oil	..	..	..	..	34½	5¾	12½	6	11⅜	..
Montgomery Ward	..	..	..	..	82½	12	82	56	72	..
National Biscuit	*161	*96½	*139	*79⅞	*270	35⅝	98½	74	94¾	‡4
National Dairy Prod.	..	..	..	..	81⅞	30⅛	80	53	69	3
National Enam. & Stamp.	30¼	9	54½	9	89½	18½	40½	22⅛	†22½	..
National Lead	91	42½	74⅝	44	174¾	63½	174¾	138	158	8
N. Y. Air Brake	98	45	136	55⅞	*145¾	26⅝	44¾	36½	40⅞	2
N. Y. Dock	40¼	8	27	9¼	70¾	15¼	45⅞	32½	†34	..
North American	*87⅞	*60	*81	*38⅞	*119½	17½	67	42	51½	§10%
Do. Pfd.	..	..	..	..	50½	31⅞	51⅛	49	†51	3
Pacific Oil	..	..	..	..	78½	27½	83⅛	1	1¼	..
Packard Motor Car	..	..	..	..	48½	9⅞	44⅜	31¾	44	2
Pan.-Am. Pet. & Trans.	..	..	70¾	35	140¼	38⅛	76½	56⅛	73½	6
Do. Class B.	..	..	..	..	111¾	34⅛	78⅜	56⅞	73⅞	6
Philadelphia Co.	59¼	37	48⅞	21½	68¾	26½	76⅝	59⅛	72	4
Phila. & Reading C. & I.	..	..	..	..	54¼	34½	48⅜	36¼	39½	..
Phillips Petroleum	..	..	..	..	69⅝	16	49½	40	49	3
Pierce-Arrow	..	..	65	25	99	6⅛	43⅛	19	29⅝	..
Do. Pfd.	..	..	109	88	111	13½	111¼	76½	110½	8
Pittsburgh Coal	*29⅜	*10	58¾	37½	74⅝	37¼	42½	29	†33	..
Postum Cereal	..	..	..	..	*134	*47	124⅞	75½	93½	5
Pressed Steel Car	56	18½	88¼	17¼	113¾	39	41½	34⅛	38¾	..
Do. Pfd.	112	88½	109⅛	69	106	67	87½	83¼	84⅝	7
Pub. Serv. N. J.	..	..	..	..	87⅞	29	92⅛	72	87¼	5
Pullman Company	200	149	177	106½	173½	87¼	182½	145¼	178	8
Punta Alegre Sugar	..	..	51	29	120	24¾	47	33	†34½	..
Pure Oil	..	..	143⅞	81⅞	61⅞	16¼	31	25⅝	27½	1½
Radio Corp. of Am.	..	..	..	..	77⅞	25⅞	48⅜	42	44¼	..
Ray Consol. Copper	27½	7½	37	15	27½	9⅞	14⅛	10½	14	..
Replogle Steel	..	..	..	..	93½	7¼	15⅞	8⅞	10¾	..
Republic Iron & Steel	49½	15¾	96	18	145	40⅛	63⅝	44	56½	..
Do. Pfd.	111¼	64½	112⅝	72	106¾	74	95¼	91¼	†93½	7
Royal Dutch N. Y.	..	..	86	56	123⅜	40⅜	57⅝	50	53½	a1.34
Savage Arms	..	..	119¾	39⅞	108⅜	8⅞	102½	73	†80	4
Schulte Retail Stores	..	..	..	..	134⅞	88	138½	42½	47⅞	§8
Sears, Roebuck & Co.	124¾	101	233	120	243	54¼	54¾	44¼	53¼	2½
Shell Trans. & Trading	..	..	..	..	90¼	29½	48⅝	40¾	†43⅜	2.16
Shell Union Oil	..	..	..	..	28⅜	12⅛	28⅜	24	27⅞	1.40
Simmons Company	..	..	..	..	54⅝	22	54½	34⅜	35½	2
Simms Petroleum	..	..	..	..	28½	6½	28⅝	18	19⅛	1
Sinclair Consol. Oil	..	..	67⅛	25¼	64⅛	15	24⅞	19⅜	22½	..
Skelly Oil	..	..	..	..	35	8⅝	37⅛	26⅝	35¾	2
Sloss-Sh. Steel & Iron	94⅝	23	93¼	19½	143½	32⅛	141¾	103	†135	6
Standard Oil of Calif.	..	..	..	..	*135	47½	62⅞	52⅝	62⅛	2
Standard Oil N. J.	*448	*322	*800	*355	*212	30⅞	46⅜	40¼	45	1
Do. Pfd.	..	..	..	..	119⅛	100⅛	119⅛	116	116¼	7
Stewart-Warner Speed	..	..	*100½	*43	*181	21	92⅞	68⅜	74	6
Stromberg Carburetor	..	..	45¼	21	118¼	22⅛	77¼	59⅞	†62	6
Studebaker Company	49½	15¾	195	20	*151	30½	61⅜	47	53	5
Do. Pfd.	98⅛	64½	119⅛	70	125	76	122½	114½	†121½	7
Tennessee Cop. & Chem.	..	..	21	11	17¼	6¼	16	10⅞	11½	1
Texas Co.	144	74½	243	112	57¾	29	56	48	54⅝	3
Texas Gulf Sulphur	..	..	..	..	121⅞	32⅝	152⅜	119½	151¼	10
Tex. & Pac. Coal & Oil	..	..	..	..	*275	30¼	19⅛	12⅛	14⅛	..
Tide Water Oil	..	..	225	165	195	5½	39¼	30¼	†32⅞	1½
Timken Roller Bearing	..	..	..	..	59⅜	28½	56½	44⅞	54¾	‡3
Tobacco Products	145	100	82⅜	25	115	45	110⅜	96¼	104⅜	7
Do. Class A.	..	..	..	..	110⅜	76½	113½	103	112½	7
Transcontinental Oil	..	..	..	..	62⅝	1¼	4¾	3	4⅜	..
Union Oil of Calif.	..	..	..	..	43⅜	33	56	37¼	54¼	2
United Cigar Stores	..	..	*127⅞	*8⅜	*255	42½	100½	83⅛	96¾	2
United Drug	..	..	90⅞	64	175⅛	46¼	167	134	159	8
Do. 1st Pfd.	..	..	54	46	58⅛	36⅝	58½	55½	†58½	3½
United Fruit	208½	126½	175	105	246	95¾	115¼	98	115¼	4
United Ry. Investment	49	16	27½	4¼	41	6	27½	19¾	†24¼	..
Do. Pfd.	77	30	49¼	10½	83¼	14	86¾	65	†75¼	..
U. S. Cast I. Pipe & F.	32	9¼	31⅞	7¾	250	10½	223	150	222⅞	10
Do. Pfd.	84	40	67½	30	113	38	108	100¼	†107	7
U. S. Indus. Alcohol	57¼	24	171½	15	167	35¼	75½	45⅜	55⅜	..
U. S. Realty & Imp.	87	49¾	63¾	8	*184½	17¼	71⅞	48⅛	60½	4
U. S. Rubber	59½	27	80½	44	143¾	22½	88¼	50¼	58¼	..
Do. 1st Pfd.	123½	98	115½	91	119½	66½	109	101½	106	8
U. S. Smelt., Ref. & Min.	59	30⅜	81½	20	78¼	18⅜	49⅞	36⅝	†39¼	3½
U. S. Steel	94⅞	41¼	136⅝	38	139¼	70¼	144½	117	141⅞	7
Do. Pfd.	131	102½	123	102	126⅝	104	130⅛	124½	129¾	7
Utah Copper	67½	38	130	48½	111	41⅛	105	93	†97	5
Vanadium Corp.	..	..	..	..	97	19⅛	37½	29	37	3
Western Union	86¼	56	105½	53⅜	144⅞	76	147⅝	134½	147½	8
Westinghouse Air Brake	141	132½	143	95	144	76	130½	105¼	126⅛	‡6
Westinghouse E. & M.	45	24¾	74⅞	32	84	38⅞	79½	65	68½	4
White Eagle Oil	..	..	..	..	34	20	29¾	25⅛	27½	2
White Motors	..	..	60	30	104½	29¼	90	51⅛	58	4
Willys-Overland	*75	*50	*325	15	40¼	4½	34	18	30	..
Do. Pfd.	..	..	100	69	123⅞	23	99	91⅛	95½	7
Wilson & Co.	..	..	84¼	42	104⅞	4⅛	9	6	†7½	..
Woolworth (F. W.) Co.	*177⅞	*76½	*151	*81½	*345	72½	222	135¼	164⅞	‡4
Worthington Pump	..	..	69	23½	117	19⅞	44¾	20¼	32⅜	..
Do. Pfd. A.	..	..	100	85⅞	98½	65	80	68	†67¼	7
Do. Pfd. B.	..	..	78⅜	50	81	53⅛	66	53	57½	6
Youngstown Sh. & Tube	..	..	..	..	92½	59⅜	89⅞	69	82⅛	4

* Old stock. † Bid price given where no sales made. ‡ Not including extras. § Payable in stock.
a Paid this year.

Securities and Commodities, Analyzed, Rated and Mentioned in this Issue

ANSWERS TO INQUIRIES

(*Continued from page* 548)

Oklahoma in 1918, and owns over 160,000 acres of oil lands in Oklahoma, Kansas and Texas. Present production of crude is estimated to exceed 6,000 barrels daily. Owns a small refinery and two casing-head gasoline plants at Bristow, Okla., and has distributing facilities throughout the southwest. Is capitalized at 388,222 capital shares of no par value. There is no funded debt. Net earnings in 1925 were equal to $2.58 a share on the common, against 80 cents in the previous year. The improvement in earnings is gratifying, but the finances of the company stand in dire need of improvement. According to latest accounts its principal assets consisted of unrealized appreciation in the value of leases, while cash amounted to but $162,610, and working capital only $98,571. It is hard to reconcile a liberal dividend policy with the wretched state of its finances. We do not consider the stock a desirable holding, believing that either Lion Oil on the Curb, or Phillips Petroleum on the "Big Board" have more to offer.

CHICAGO PNEUMATIC TOOL

Do you consider Chicago Pneumatic Tool stock to have attractive speculative possibilities at the present price? I understand the company has acquired the American rights to the Diesel engine, so favorably regarded in industrial circles. I am seriously considering the purchase of this stock and request your advice as to the wisdom of doing so.—F. A. M., Buffalo, N. Y.

Early in March of this year, it was announced that the Chicago Pneumatic Tool Co. had acquired the American manufacturing and selling rights of the German Diesel engine, made by M-W-M Benz of Mannheim. The machine is being manufactured and sold in conjunction with the semi-Diesel type made by the company for years. The company made a good showing in 1925. Net income was equal to $6.88 a share on the common, against $6.11 in 1924. The improvement was probably due to some extent to the wiping out of surplus war stocks of tools, and the dependence of consumers on manufacturers for their supplies. Current earnings are estimated to be running at a $7.20 annual rate on the stock. This is a creditable showing, but the advance in the stock has been so rapid that it now seems to be selling more to discount future prosperity than actual results. It does not appear very attractive at this time.

ENDICOTT-JOHNSON

I would thank you for a brief analysis of Endicott-Johnson showing 1925 results and the financial position of the company. I have 100 shares of the common stock, bought several years ago. Do you consider this stock a satisfactory investment for a business woman?—Mrs. G. K., Denver, Colo.

The net income of Endicott-Johnson in 1925 was equal to $8.47 a share on the 405,360 common shares of $50 par

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value. This constituted a fair increase over the $8.04 of the previous year, and the $7.95 of 1923. The entrance of the company into the field of manufacture of women's and children's fine shoes, requiring an addition of three new factories resulted in an increase in inventory account from 15.89 millions to 20.58 millions. The rise in bank loans from 6 millions to 10.05 millions was undoubtedly a reflection of the greater inventory. Notwithstanding these changes, the financial position of the company remained strong, working capital aggregating over 22.25 millions, of which cash accounted for over 3.63 millions. Due to improved conditions throughout the country there has been increased demand for all the company's lines, especially the dress shoes for men and women, and children's shoes. In view of the remarkable stability in earnings over a period of years both preferred and common stocks are entitled to good ratings as investments for income.

FEDERAL MINING & SMELTING

Please inform me of latest developments in the injunction suit brought against Federal Mining & Smelting by H. Content & Company of New York. I am a holder of the common stock and naturally I am wondering if there is any likelihood of the special dividend of $10 a share being paid. Also, what do you think of this stock as a speculation?—A. E. B., Baltimore, Md.

The demurrer filed by the Federal Mining & Smelting Company in the injunction suit brought against the company by H. Content & Company of New York to prevent the payment of a special dividend of $10 a share on the common stock was overruled by Chancellor Wolcott, sitting in Court of Chancery of Delaware. The complainant seeks to enjoin the defendant permanently from paying the special dividend of $10 a share until it has restored its capital to its former strength. Federal Smelting has appealed from the decision of Chancellor Wolcott and hearing of the appeal has been set for September 9. What the outcome will be is wholly a matter of conjecture. Aided by fair metal prices and increased output, Federal did very well in 1925. Earnings were equal to $37.52 a share on the common, against $1.07 a share in 1924. This was a remarkable showing, but in view of the fact that ore reserves are understood to have become greatly depleted, it will hardly be duplicated in the future. In view of the uncertain outlook, as well as the litigation described above, the stock must be regarded as a highly speculative and relatively unattractive holding.

CASE THRESHING MACHINE

Will you tell me if there is any real justification for the recent rise in J. I. Case Threshing Machine Company stock? I know of course that there has been considerable improvement in the company's affairs, but current price levels appear awfully high to me.—J. A. W., St. Louis, Mo.

The spectacular rise in the market valuation of J. I. Case Threshing Machine Company's shares appears to us to have been but a natural reflection of the remarkable improvement in the

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(*Continued from page* 598)

affairs of this company. As a matter of fact, many months ago we pointed out to our readers the exceptional speculative qualities of this stock. Aided by agricultural prosperity in various sections of the country, resulting in greatly increased demand for farming implements, Case was able to report earnings equal to $10.64 a share on the common, after all deductions. This compares with $1.13 a share in 1924. Further, its financial position was strengthened, cash holdings at the end of the year standing in excess of 2.8 millions, against $730,000 on December 31. 1924. The immediate outlook is for further improvement. While it is true that present quotations for this stock discount the existing situation to a considerable extent, in view of the optimistic trade outlook ahead Case still appears to retain good possibilities of a long range character.

AMERICAN WATER WORKS

I have always favored the utilities when making up my investment schedule and profited greatly through the fortunate purchase of American Water Works & Electric stock before the spectacular rise. Needless to say, I sold out at a tremendous profit. I have funds available now and am wondering if this is the time to buy back my stock. Please advise me.—M. O. P., Louisville, Ky.

We congratulate you upon the outcome of your investment in American Water Works stock. Our only regret is that a larger proportion of our subscribers did not follow our advice to purchase this stock when it was so palpably undervalued. However, the price course of Water Works is now a matter of stock market history and a similar profit opportunity hardly exists therein today. Consolidated earnings in 1925 were equal to $4.17 a share on the common, compared with $2.72 in 1924. The company is showing marked expansion in power output, water consumption and earnings in the current year, but present stock prices seem to discount both the existing situation and visible prospects for the future. It would probably be well to defer purchase of the stock pending a better buying opportunity. We would suggest Brooklyn Union Gas for the temporary employment of your funds. In view of the prosperity enjoyed by this latter concern its stock appears entitled to sell at higher price levels.

INTERNATIONAL PAPER

Do you consider International Paper common stock sufficiently promising as a speculation to justify holding for a period of from two to three years? I have employed the rather limited facilities at my disposal to make a study of this stock, and my findings have made me very bullish in regard to the company's future. I wonder if you agree with me?—N. R. S., Portland, Ore.

In our opinion, International Paper common stock is suitable more for one willing to employ a measure of patience in holding than for him desirous of securing prompt returns. Present stock market quotations hardly represent the true asset value of this stock, nor has earning power been developed to a peak. For several years, International Paper has been in the transi-

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tion stage, accepting every opportunity to replace its old, high cost plants in the United States with modern economically operated mills in Canada. In its present state, Paper lacks continuity of history, and comparisons with any year prior to 1925 are ridiculous. It is practically a new enterprise in everything, but its name. Thus far, earnings have left something to be desired, but to our minds the dividend payment recently inaugurated on the common appears justified, both on the basis of results to date and visible prospects for the future. As its new departments are co-ordinated, earning power will undoubtedly expand rapidly. At the present rate of progress shown it appears likely that Paper will be well into its stride by the middle of 1928. Here is an instance where patience should reap rich rewards. If holding this stock for two or three years will not inconvenience you we would advise you to do so.

TEXAS GULF SULPHUR

I am interested in knowing the latest developments in the affairs of Texas Gulf Sulphur. I was fortunate enough to purchase this stock when it was first listed, and of course I now have a very handsome profit. Is it likely that the stock will sell much higher?—T. R. S. Montreal, Que.

Reports covering the operations of Texas Gulf Sulphur in the first quarter of 1926 show net earnings, but before depletion, equivalent to $3.04 a share on the 635,000 capital shares of $10 par outstanding. This compares with $2.22 a share in the first quarter of 1925. Aided by higher sulphur prices as well as the retirement from the field of Union Sulphur following the exhaustion of its deposits, Texas Gulf profited handsomely in 1925. Net income was equal to $8.95 a share on the stock, against $7.58 in 1924. Indications are that it will do much better in the current year. However, such prosperity as the company has enjoyed to date appears well discounted in the present valuation of the shares, so that materially higher stock prices do not appear warranted. It is quite likely that the shares will be available to somewhat better advantage in the not distant future. A switch from this issue to New York Central, a sound investment with good prospects for price appreciation, is suggested.

PURE OIL

Do you believe it would be worth while for me to continue to hold my Pure Oil stock? I have held this for many years, but it never seems to get anywhere. Is the outlook favorable for higher prices?—E. J. P., Cheyenne, Wyo.

We are pleased to inform you that the Pure Oil situation has undergone considerable improvement. Not only were the earnings for the year ended March 31, 1926, the best in four years but a decided betterment was shown in its financial position. Net income was equal to $3.70 a share on 3,038,370 shares of $25 par, against $3.10 a share on 2,860,196 shares in 1924. Funded debt was cut exactly in half to 10.43 millions, while notes payable were re-

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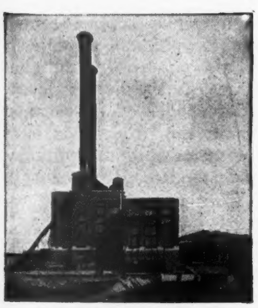
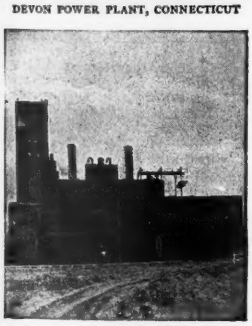
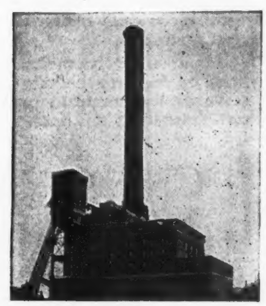


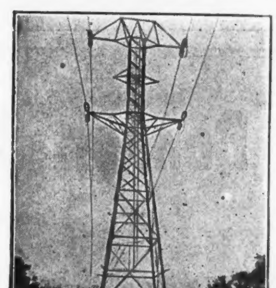
DEVON POWER PLANT, CONNECTICUT



POWER PLANT, SIOUX CITY, IOWA



BARBADOES POWER PLANT, PENNA.



TRANSMISSION LINES, INDIANA

(*Continued from page* 602)

duced from 9.1 millions to 4.35 millions. Cash holdings remained at practically the same figure, 3.14 millions. Considerable success has attended its operations in various sections, the proving up of its 10,000 acres lease in the Sweet Lake district of Texas being an interesting and important development. Unofficial reports would indicate that current earnings are running ahead of those of last year. The very large number of shares outstanding renders this stock slow to move in the market, but past performances and visible prospects seem to warrant a higher price than the present.

KAY COPPER

I purchased 500 shares of Kay Copper before I became a subscriber to The Magazine of Wall Street. *I realize I acted rather hastily and although thus far I have not had any cause to regret my purchase I would like to know just what I might expect in the future. Please let me have your opinion of this stock.—J. F. G., Lowell, Mass.*

The Kay Copper properties are located within the Yavapai schist belt in Arizona, not far removed from the workings of United Verde and United Verde Extension at Jerome. The property is as yet in the development stage. In considering a proposition of this character, it is possible at this time to form only an estimate as to the actual worth of the shares. The extent of value to be uncovered can be determined only by the results of future development, and commercial production seems a considerable distance away. However, development work is being actively pushed, and up to date, has revealed ore bodies containing not only high grade copper content, but considerable gold and silver content as well. This potential value has been in evidence at the deeper levels as in the earlier stages of development and, as a result, the proposition offers considerable promise as a profitable source of copper supplies for the future. For anyone willing to assume the necessary risk in connection with an enterprise of this character, the prospects would seem to be better than the average.

SOUTHERN DAIRIES

I purchased Southern Dairies stock as a speculation some time ago following an article which appeared in The Magazine of Wall Street. *Results so far have been very satisfactory and indeed have influenced me to contemplate purchase of the Class B stock as well. It seems to act well in the market. Would you advise this procedure?—N. P. R., Richmond, Va.*

Considering the remarkable increase in the sales of Southern Dairies in the first four months of the current year, there appears to be a sound foundation for the recent market strength in its shares. An increase of approximately 50%, or from 1.97 millions to 2.94 millions was registered. This sharp upturn in sales might be attributed to the opening of new plants in Miami and Palm Beach, Fla., and the addition of plants in Virginia and Maryland acquired last December. All told, Southern Dairies now operates 40 plants lo-

(*Please turn to page* 606)

(*Continued from page* 604)

cated throughout the southern states, from Baltimore to Miami. Is advantageously situated in regard to milk supply, most of its requirements coming from the so-called "black belt" of Alabama, where climatic conditions lend themselves to all year round dairying. Net earnings in 1925 were equal to $7.60 a share on the 110,000 shares of Class A stock, almost twice dividend requirements. In view of the recent upturn in income, and the fact that the Class A payment cannot be increased until $4 is paid on the Class B, it would appear that the latter is in line for payments in the not distant future. Hence, the Class B at current levels seems a rather attractive speculation.

WRIGLEY PHARMACEUTICAL

Thanks to your investment counsel I have disposed of most of my inferior holdings and now find myself with a very satisfactory dividend return from those stocks you suggested. However, I still find myself with 100 shares of Wrigley Pharmaceutical I purchased at a dollar a share. The company has not done much to date, but in view of the success Mr. Wrigley has made of his other enterprises I have a feeling that things will eventually turn out all right. Will you please make some mention of this company in your magazine? S. R. A., Philadelphia, Pa.

The Wrigley Pharmaceutical Company of Atlantic City, N. J., manufacturers of "Spearmint Toothpaste," and tendering generous samples of their product to those purchasing its shares, has absolutely no connection with the William Wrigley, Jr., Company of Chicago. About a year ago, in response to many inquiries of a nature similar to your own reaching this office we communicated with the Chicago concern, requesting information. We were in receipt of a reply to the effect that neither the William Wrigley, Jr., Company nor any of its officers had any connection in any manner, shape or form with the Atlantic City concern, and the only correspondence they had with them had been through the medium of their lawyers. Recently, we have been deluged with requests for advice regarding this stock, something which would appear to indicate that an intensive stock selling campaign is being carried on. On the basis of commercial results to date the stock can only be regarded as a gamble, with pronounced risk involved in holding. The current market over-the-counter is around 15 to 20 cents a share.

AMERICAN TELEGRAPH & CABLE

I am at a loss to understand why American Telegraph & Cable shares sell on such a high yield basis. My impression always has been that payments on this stock are guaranteed by Western Union. If this is true this security certainly is on the bargain counter. Would you advise purchase?—R. O. P., Memphis, Tenn.

American Telegraph & Cable stock, paying $5 in dividends, is selling at a price which seems to indicate popular doubt as to the ability of the company to long maintain this rate. The dividend is guaranteed by Western Union until 1932, and may be regarded as temporarily secure, but whether the lease will be renewed upon expiration is diffi-

(*Please turn to page* 608)

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With many people on their vacations, those of us who cannot get away now are naturally thinking of the time when we can and where we will go.

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S.S. RESOLUTE....................Jan. 6, 1927

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S.S. FRANCONIA....................Jan. 12, 1927

Frank C. Clark
S.S. CALIFORNIA....................Jan. 19, 1927

Great African

Royal Mail
S.S. ASTURIAS....................Jan. 20, 1927

West Indies

Cunard Line
S.S. FRANCONIA....................Dec. 22, 1926
S.S. CALEDONIA....................Jan. 22, 1927
S.S. CALEDONIA....................Feb. 26, 1927

Mediterranean

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Northern Pacific Railway
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Southern Pacific
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California Tours
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Pennsylvania Railroad
New York, Philadelphia, Atlantic City, Washington to Chicago and St. Louis.

Canadian National Railways
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Union Pacific
Central Route between Chicago and California over overland trail.

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Old Santa Fe trail to Southwest. Petrified Forest, grand Canyon and other National Parks.

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The Paradise of the Pacific. The land of Sunshine, Smiles and Flowers.

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(*Continued from page 606*)

cult to determine, and will depend upon just how essential the lines are to Western Union. We note the latter is following an aggressive construction program, something which does not augur well for the future of American Telegraph & Cable. Hence, until the situation definitely shapes itself, the company hardly occupies a better than a liquidating status. Present selling price is fully in line with the actual value of the shares. We would not advise purchase.

CONSOLIDATED LAUNDRIES

In view of the fact that the laundry industry is an essential one which at the same time seems to lend itself to organization on a large scale, don't you think that the shares of some of the larger companies offer considerable promise? I am tempted to purchase a few shares of Consolidated Laundries, believing this to be the more attractive. What is your opinion?—G. A. L., Kansas City, Mo.

Consolidated Laundries is a comparative newcomer to investment circles, but the company succeeds to a number of well established enterprises, in successful operation over a period of years. The twenty laundries controlled serve a large part of New York City, as well as many important communities on Long Island and northern New Jersey. Capitalization is conservative, consisting of $2 millions of convertible 6½s and 371,480 no par common shares. A survey of the latest published balance sheet reveals a strong financial position. Current assets total about 1.43 millions, and current liabilities $275,000, indicating net working capital in excess of 1.1 millions. Earnings of constituent companies have shown a tendency to advance over a period of years, rising from $781,000 in 1923 to slightly under a million in 1925. Considering the nature of the enterprise, its sound finances and unlimited field, it is reasonable to believe that along with further expansion in scope of operations earnings will show the same gratifying upward tendency. The stock is too unseasoned to be rated a sound investment, but is not unattractive as a speculation.

Important Corporation Meetings

Company	Specification	Date of Meeting
Barnet Leather	Directors	7-19
Brooklyn-Manhattan Transit	Directors	7-19
Du Pont (E. I.) de Nemours	Directors	7-19
Chesapeake & Ohio	Directors	7-20
Douglas Pectin	Directors	7-20
Intertype Corporation	Directors	7-20
Kelly-Springfield	Directors	7-20
Mackay Cos.	Directors	7-20
Spear & Co.	Directors	7-20
Stewart-Warner	Dividend	7-20
American Tel. & Tel.	Directors	7-21
Austin, Nichols	Directors	7-21
Calumet & Arizona	Directors	7-21
Commercial Solvents Corp.	Directors	7-21
Consolidation Coal	Directors	7-21
Fairbanks-Morse	Pfd. Div.	7-21
Kinney, G. R.	Pfd. & Com. Divs.	7-21
Montana Power	Directors	7-21
Mullins Body Corp.	Directors	7-21
National Cloak & Suit	Pfd. Div.	7-21
Northern Pacific	Directors	7-21
Reading Co.	Directors	7-21
Republic Steel & Iron	Directors	7-21
American Locomotive	Executive Committee	7-22
Baldwin Locomotive	Directors	7-22
Bethlehem Steel	Directors	7-22
Waldorf System	Directors	7-22
Congoleum-Nairn	Directors	7-22
General Railway Signal	Executive Committee	7-23

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The books, booklets, circulars and special letters listed blow have been prepared with the utmost care by business houses of the highest standard. They will be sent free on request, direct from the issuing house. sk for them by number.

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This 8-page booklet, issued by one of the largest first mortgage real estate bond houses, show you how to "check up" first mortgage real estate bonds. Send for (264).

A QUESTION ANSWERED

An extremely interesting illustrated booklet explaining how a stock exchange firm handles out of town business. It shows how orders are treated from the time the leter arrives to the final placing of the certificates purchased. (278)

FOR INCOME BUILDERS

This booklet describes a practical Partial Payment Plan, whereby sound securities may be purchased through monthly payments of as little as $10. Shows how a permanent, independent income may be built through the systematic investing of small sums set aside from current earnings. Ask for 318.

FIFTY-THREE YEARS OF PROVEN SAFETY

An interesting and handsomely illustrated booklet describing the investment principles which have made possible the record of "No Loss to Any Investor in Fifty-Three Years" for owners of Smith Bonds. Ask for (326).

THE PARTIAL PAYMENT

method of purchasing good securities in odd lots and full lots on convenient terms is explained in a free booklet issued by an old established New York Stock Exchange House. (224)

BOND RECORD

A convenient record book for listing bond holdings, interest payments, profits, etc. Title heading of book, "My Investments." A limited number is being distributed gratis by a leading Bond House. (285)

ATLANTA

If you are establishing a branch factory or office in the South, get a confidential survey strictly applicable to your business based on sound economics. Ask for 363.

8% AND SAFETY

To hasten the rapid growth of Florida, the rate for first mortgage bonds in that state is 8%. This interesting booklet tells why they are safe. (322)

THE FORMULA FOR WEALTH

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ODD LOTS

A well known New York Stock Exchange firm has ready for free distribution a booklet which explains the many advantages that trading in odd lots offers to both small and large investors. (225)

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The well-known firm of investment bankers who bring out this booklet have endeavored in the 1925 edition to present a comprehensive story of the business methods which for 44 years have insured the safety of all their underwritings to the end that no investor has ever suffered a loss or been compelled to wait even a single day for the payment of principal and interest upon his securities. (217)

3 SAFETY FEATURES OF LEVERICH FIRST MORTGAGE REAL ESTATE BOND CERTIFICATE ISSUES

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THE PRUDENCE PARTIAL PAYMENT PLAN

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UTILITIES KEEPING ABREAST OF NEW OPPORTUNITIES

(Continued from page 578)

Domestic sales constitute 71% of the total, and industrial and commercial sales about 27%. Revenues have increased from 379 million dollars in 1921 to 452 million in 1925.

The gas industry anticipates playing a large part in the domestic refrigeration field, there now being on the market gas-fired refrigerator machines of both absorption and adsorption types. These are claimed to have certain advantages over electric refrigerating machines. Their entry into the field will undoubtedly speed the development of both the gas and electric types, owing to their competitive character.

Concentration on the development of the industrial field is the goal of the gas industry, the industrial load finding high favor through its continuity of demand and absence of peaks and through the fact that it seldom necessitates the maintenance of expensive reserve equipment. As late as 1910 only 5% of the total gas output was used in industry while to day the ratio is 25% and rapidly increasing. Ninety per cent of the potential industrial field still awaits development.

It is estimated that the gas industry will require at least two billion dollars of new money in the next ten years to meet the growing demand for service.

The greatest problem on the hands of the telephone industry is to keep ahead of the service demands. The large number of stations indicates that the increase each year in the future in this figure will correspond more closely than heretofore with the increase in population. It is in more intensive use that the increased service demands arise. There is no industry better qualified to cope with this situation than the telephone industry. Through the large national company, the Bell System, researches and programs as in wireless are conducted looking definitely five years in the future and ultimately twenty years ahead.

Surveys of commercial, industrial and social conditions are made to determine future markets for the service, that all plant additions may be built with full provision for economical and adequate extensions of plant.

The large amounts of new capital recently put into the telephone industry are but an indication of the future development of this industry.

The Magazine of Wall Street has compiled a list of books on Speculation, Economics and Business subjects published by other companies. All of these books have been read by our Staff of experts and we heartily recommend them to our readers. We invite further correspondence about this list. Address your inquiries care of Book Department.

SOUTHERN PACIFIC—A WESTERN GIANT

(Continued from page 529)

Rock Island at Tucumcari, New Mexico, forming a splendid route to Chicago. Heaviest concentration of lines is in California and Texas, two particularly favored and rapidly growing states.

Freight tonnage in 1925 was divided between the principal commodities as follows: agricultural products 14.27%, animals 2.37%, minerals 37.03%, forests 22.25% and manufactures and miscellaneous 24.08%. Quarry products, crude and refined petroleum, and ores are the most important items in the order named. While traffic distribution is not ideal it is good and any defects are more than compensated by Southern Pacific's great extent. Because of this the company has been termed depression proof. Certainly, its relatively good showing in the post-war depression may be in large measure ascribed to its having so thoroughly penetrated the California field, where it is the dominant factor. Either or both California and Texas might prove exceptions to any general depression of the future, although the last two years have seen drought in both states with an adverse effect upon earnings. As regards Panama Canal competition Southern Pacific has the advantage of being able to make joint rail and water rates in the coast-to-coast business.

Southern Pacific's past earnings may be characterized as stable rather than large. On the property investment they are low, around 4%. In looking at the earning record, the 1917 showing should be taken with a grain of salt and comparison should not necessarily be made to the detriment of more recent earnings. In 1917 gross revenues expanded rapidly and so did transportation costs. Maintenance, however, was held down to the level of the preceding year. The principal expense ratios compare as follows:

Year	1916	1917	1918	1923	1924	1925
Maintenance	25.5	21.5	30.4	31.9	31.5	30.5
Transportation	32.6	35.5	38.8	34.3	35.9	36.5
Total	63.1	62.2	73.4	72.1	73.6	73.5

The slight tendency of transportation costs to rise since the low point of 1923 is being vigorously overcome this year. In the four months, January to April, transportation expenses were reduced over $2,158,000 although gross revenues increased by $521,000, the ratio falling 2.6 points.

It may logically be considered that the extensive improvements of recent years are bearing fruit in great efficiency and reduced cost of operation. The 1926 improvement budget is stated to be about $45,000,000, although it may diverge considerably from this figure. The normal requirements of so vast a system for this purpose must be regularly large, and while the company's working capital position is exceedingly strong, it has utilized in the past three

years the 40 odd millions of government securities which it carried in investments at the end of 1922. Moreover, the financial structure is not particularly well balanced with debt about 63% of total capitalization against 37% stock. The company would appear to have every reason for placing the stock on a 7% dividend basis and thus creating an assured basis for future stock financing. Not since dividends were inaugurated 20 years ago has the company earned less than 7%—ample justification for such a step.

This possibility of a larger disbursement would seem to afford the principal near term speculative attraction. For the genuine long pull, the possibilities inherent in the common stock are certainly very great.

THE INVESTMENT POSITION OF PUBLIC UTILTY SECURITIES

(*Continued from page* 582)

pressure must relax at some time in the future, yet if there were any assurance that this factor could be mitigated in importance, there can be no doubt that the last objectors to the long-term upward swing in good utility securities would be silenced. One instance will demonstrate that this factor is being subjected to control, and that this subjection will result in more immediate benefits to stockholders.

The Consolidated Gas, Electric Light & Power Co. of Baltimore reports that its gas investment was 8.59 times annual gross revenues in 1904 and only 5.10 times annual gross revenues in 1925. Investment in electrical properties has shown a remarkable efficiency. In 1925 this investment was only 3.64 times annual gross revenues from electric light and power sources. In 1909 before inter-connection of the electric plants the investment in electric properties was fully 11.60 times annual earnings. Of course this is not wholly representative as in 1909 the electrical output was wholly steam generated and in 1925, 42% was hydro-power. But production had risen from about 50 million kilowatt-hours to 720 million kilowatt-hours in the meantime. Fully four-fifths of the gains in investment efficiency must have been due to a combination of generally known technical factors and the increase in consumption.

These developments in Baltimore prove that the need for new capital requirements as a ratio to annual gross revenues is declining. Hence not only is the public utilities industry one that has assured gains in operating profits, but one also that will improve the very basis of its investment position. Conjoined, these two factors make as strongly bullish an appeal as can be formulated. But such advice is for the investor, or rather spec-vestor, and not for the speculator. Those who are

impatient will share the fate of those who became tired of occasional recessions in utility stocks, and who sold out and have failed to participate in the sensational profits that have rewarded the more faithful army of stockholders. The fundamental truths about the utility stocks need to be reviewed at a time when the rather robust faith of 1924-25 is slightly obscured by memory of a recent recession in quotations.

For bonds the case is even stronger. In the first place not only do they participate in the exceptional merits of the stronger operating and holding companies, but they require only a small percentage of profit to pay their interest and sinking-fund requirements. The movement to make them "legals" for savings banks, insurance companies and trust funds will broaden their market. At present they are undervalued in comparison with the rails. While they have been closing up the gap between them and the rails, yet they have not gone as far as they will. Yields of the very best public utility bonds have declined from 5.14% in January, 1925, to 4.90% in May, 1926. The average of bond yields from bonds of similar calibre, principally rails has declined in the same period from 4.78% to 4.58%. But at present it may be useful to compare rails and utilities. The reason for this is that every impartial observer believes that rail bonds have far from exhausted their possible gains, and that 4% will become a typical yield for the very finest in this class. This yield is today about 4.65%. Listed public utility bonds of this quality are at about 4.85-4.90%. The improvement in utilities is not only possible down to 4.20%, the same relative distance back of rail bonds, but, as time goes on, the utility bonds will rival the rail bonds, and perhaps a shade of difference or no difference at all will prevail. The conclusion is obvious. The boom in public utility bonds has not traversed half of its distance. They are admirable purchases. Of course there is one common sense caution. Bonds with a high coupon rate, selling near or above call price should not be bought, as it is the interest of the companies to refund such bonds. But otherwise all high grade utility bonds are a purchase for investment and spec-vestment value.

The preferred stocks are a hybrid, and are favored by both the stocks and bond development. Wherever noncallable, where the fixed dividend rate is high, they will participate in the improvement in value of all fixed interest obligations. Preferred stocks of high-grade operating companies are widely distributed, as it is customary for control of operating utilities to be exercised through common stock ownership rather than through preferred stock purchase. Hence for the bargain hunter in operating company stocks, there is a special wide opportunity. Many of these preferred stocks are in a position where it is difficult to detect why they yield upwards of 6%. For those who require a higher income than they are otherwise obtaining, they probably offer the best opportunities.

THE RIDDLE OF U. S. STEEL'S BOOK VALUE

(*Continued from page 525*)

steel industry makes the expansion of the pay-roll a more serious factor here than in other lines. Finally, it must be pointed out that U. S. Steel has not enjoyed the advantage of greatly augmented output which has helped other companies to absorb the higher wage scale. In fact, the increase of 15½% in ingot production for 1925 as against 1915 is undeniably a disappointing figure, especially when compared with the 42% rise in the output of the whole country.

This production ratio leads us to a consideration of the results achieved by the corporation's large expenditures on new plant facilities. Judge Gary has effectively disposed of the charge of over-expansion by pointing out that in twelve years Steel's ingot capacity has increased but 20%, against 60% by its competitors. This fact raises in turn the question of the cost of each ton of added output. We have seen that the additional capital invested in operating assets since 1915 amounts to 347 millions. Against this the increase of ingot capacity is reported at 2,200,000 tons, and that of finished steel at only 900,000 tons. While exact comparisons are not feasible, it is significant to note that Republic Iron & Steel, with a total capitalization selling in the market for 60 millions, reported last year an output of 932,000 tons of finished and semi-finished products.

Evidently, a substantial part of the corporation's plant expenditure has been devoted not to increasing capacity but to improving the manufacturing processes. It is also true that a good part of the additions to capacity are offset by reductions due to the retirement of obsolete and uneconomical units. The effect of the outlays for improvements is visible in the fact that since 1915 operating expenses other than wages have increased at a somewhat smaller rate than the gross receipts, although the exhibit here can hardly be called impressive.

But, however, the capital expenditures are divided as between additions and betterments, the fact remains that no commensurate benefit can be traced either in capacity or costs—either in output or profit margin. The fundamental reason for this unsatisfactory state of affairs is to be found in the competitive character of the industry, or more exactly in the combination of keen competition with elaborate manufacturing processes. Where so many different operations are involved, technical improvements are constantly being devised, which, as soon as adopted by one company, must straightway be followed by the rest. This necessitates incessant outlays for new equipment and the rapid obsolescence of old facilities. An outstanding example is the

development of the by-product coke-process replacing the beehive ovens. In the end, however, the competitive pressure prevents any increase in the margin of profits as the result of this greater efficiency, so that the chief benefit therefrom is reaped by the consumer.

Hence, it may be questioned whether the Steel Corporation's yearly charges for maintenance and depreciation, enormous as they appear, have fully provided for this obsolescence factor, which is not capable of annual calculation. To the extent that the undistributed profits are required to offset plant investment grown obsolete (and not amortized by depreciation and contingent reserves), the true earnings would have to be regarded as somewhat lower than the reported figures.

Again, the integrated character of the steel industry, together with the great variety of its products, supplies a constant incentive to expansion. Nearly every company can always find a good reason for branching out in some department which it had previously neglected, or "strengthening its position" at some point in the chain from raw material to finished goods. In the aggregate this means a continuous increase in the country's steel capacity, beyond that required by the growth of demand.

These basic factors probably explain the attitude of combined helplessness and disapproval which now and then qualifies the constitutional optimism of the leaders of industry. Judge Gary expresses a desire to spend less on property account, but insists that the activities of his competitors force the Steel Corporation to fall in line, or else lag behind. President Campbell of the Youngstown Steel & Tube—a concern enjoying an earning power above the average—states that under present conditions of high costs, plant expenditure must be financed out of earnings and not by sale of securities. The skeptic would inquire, "Why make these improvements if they cannot be expected to return a fair profit on their cost?" The answer is, no doubt, that competitive conditions demand them.

Mr. Schwab, of Bethlehem Steel, has recently called attention to the relatively small return per dollar of capital invested in the steel industry, and has not hesitated to blame it on the practice of making plant expenditures without the prior assurance of a suitable return. Very possibly, however, the situation arises not from errors in policy, but from the steady working of economic laws. Adam Smith pointed out long ago that in a developed community the long-term tendency is for the rate of profit on capital to decline. It may well be that beneath the welter of war dislocation and post war fluctuations, the steel industry in the past decade has been illustrating this principle.

This question is of vital interest to those alert investors who buy for appreciation as well as for income. A trend towards diminishing returns is by no means noticeable in every field. In the past decade countless companies

have been able to increase their earnings, and, therefore, the price of their shares, in far greater ratio than the growth of their assets. These include enterprises as diverse as American Tobacco, Corn Products Refining, Railway Steel Spring—to say nothing of obvious examples like Woolworth and General Motors. American Tobacco, for example, in the past ten years has added 53 millions to the assets behind its common stock, which meanwhile increased in market price over 140 millions—a difference explained by the growth in net earnings from 8 to 19 millions.

Where a company is unusually prosperous the reason will generally be found in a special growth of demand—a growth more rapid than the normal, secular, or populational rate. This may be due to new or intensified public tastes—as in cigarettes, autos and various trade-marked goods; or to advantages enabling certain types of organization to secure an increasing proportion of the total business in their field—as illustrated by chain systems, department stores and many small efficient enterprises. In such cases expanding volume keeps competition within "healthy" bounds, and permits maintenance of a satisfactory profit margin on the growing turnover.

Neither the steel industry, as a whole, nor U. S. Steel in particular, belongs to this class. Their growth has been sure and by no means slow; yet in the absence of any special stimulus to demand, the tendency has been for augmented capacity to keep well abreast of rising volume. Hence, competitive pressure has been gradually undermining the margin of profit on sales and the rate of return on capital. This would seem to be the fundamental reason for the relatively moderate improvement in the position of Steel common stockholders over the past ten years, as compared with that of many other companies operating, it would seem, under no more favorable auspices.

It might be well, finally, to point out the practical bearing of this situation on the value of Steel's cash assets. We have seen that in the past decade the corporation's financial position (as distinct from its operating assets) has been improved to the extent of over 300 millions, or $60 per share, from which it has derived added annual income of 15 millions, or about 5%. Yet, investors would generally expect Steel common to earn on the average some 10% on its market price—this being regarded as a fair ratio in the case of stocks with normal prospects and subject to fluctuations in earning power. Nor is it customary to reduce the required percentage because of the existence of large cash assets, unless there is a definite likelihood of a large distribution. This being the case, a peculiar and wide discrepancy results between the face value of the corporation's holdings in cash, or cash equivalents, and their practical value to the stockholders. There is no room here for a thorough discussion of this point, but it is worth considering that there

may be such a thing as excess financial strength in the same way as excess plant capacity.

In the absence of strong indications to the contrary, it must be assumed that the Steel Corporation's management is thoroughly aware of the considerations outlined above, and has held them clearly in mind when apportioning the annual profit between dividends and reinvestment. With respect to the sums applied to plant account, a good part of these seem to have been dictated more by necessity than by choice, and their failure to produce a commensurate growth in profits must be attributed to conditions inherent in the industry rather than to faulty judgment. Frankly speaking, it is not so obvious that all the sums applied to cash assets and bond retirement have been indubitably needed therefor. The accepted argument in favor of ultra conservatism—that the stockholders must ultimately reap the benefit—fails to take the time element into account. According to this view, it is immaterial to a shareholder whether his equities take realizable form in one year or ten. Nothing could be more fallacious; for in this respect stocks are identical with bonds, the return from which is invariably calculated on an annual basis. Hence, in a real sense delay means loss; and to the extent that a stockholder's reward is postponed, its value to him is diminished.

Needless to say our conclusions in no wise question the impregnable strength of U. S. Steel Corporation or its ability to earn a fair return on a capitalization undoubtedly far below the actual investment. We have been concerned rather with the cause and significance of the persistent disparity between the book value of Steel common and its market quotation. Our investigation indicates that the steel industry is one which necessitates a steady upbuilding of assets without assurance of a comparable increase in earnings. This being the case, it is inevitable, and by no means unjust that the stock market should appraise these added assets at less than their face value.

This may explain why Steel common does not and should not sell at $280 per share. Whether the present record price, around $140, is intrinsically low or high, constitutes an entirely different question, on which this article sheds at best an indirect and partial light. Looking beyond the immediate market furore, and the accompanying stock dividend prospects, the writer hazards the view that the essential character of Steel common remains the same today as in the past—a surer investment than most, but slower than many to grow in value.

The Magazine of Wall Street has compiled a list of books on Speculation, Economics and Business subjects published by other companies. All of these books have been read by our Staff of experts and we heartily recommend them to our readers. We invite further correspondence about this list. Address your inquiries care of Book Department.

PRACTICAL WORKING OF THE GROUP INSURANCE PLAN

(*Continued from page* 546)

cipal benefits and privileges, and specifying amount of insurance and beneficiary; and

5—For including in the group insurance all eligible new employees on same terms as original members.

An important clause incorporated in the usual group policy is that pertaining to permanent total disability, under which, if the employee is incapacitated before age 60 by such total and permanent disability, premiums are waived on his insurance and he enters on the benefits operative under this clause:—payment of the proceeds of the policy in a lump sum, or in installments over a specified period.

Census of Employees

After application for the group policy is made by the employer, and its installation is under way, it is usually arranged that a register shall be kept by the company at its home office showing the names of the employees participating in the insurance and the amount of each employee's coverage. This is preceded by the taking of a census of all employees eligible for inclusion in the group insurance, with the amount of insurance noted in this census according to the particular formula adopted (as based on length of service, on amount of wages, or on equality of participation), and stating the name and relationship of the beneficiary, date of birth of insured, and his specific occupation.

Cost of Insurance

The accepted idea of group insurance is coverage under which the employer pays part of—sometimes the entire—premium cost. The New York Insurance Department has in fact emphasized that the employer should pay at least one-quarter of the premium. The cost of the insurance varies according to the type of industry involved, the average age of the employees, and the amount of insurance issued to them. But for all practical purposes, it may be assumed that in the average group, the annual premium for a group policy of say $500,000 would be approximately $5,000—or 1% of the total amount of insurance in force. Considering that the number of employers in such group may be 600 or more, with a payment of nearly $100,000, it will be seen that the total cost bears a very small ratio to the protection granted. Under the contributory plan, part of this premium cost is, of course, borne by the employees.

Tax Exemption

An interesting feature in connection

with Group insurance is that deductions may be made by the employer from Federal Income taxes for premiums paid on a group policy. This deduction is permitted since the proceeds of such life insurance do not go to the employer, but are paid to the beneficiaries of the employees.

Some employers supplement the life insurance coverage to employees by extending Pension Benefits also. There are various methods of working out such pension systems, but the usual plan is to require that an employee shall have been in service for a stated period of years before he is eligible for inclusion, and that he shall have attained the age of 60 or 65 before he may be retired from active service and enter upon the benefits under the Pension Service. The amount of pension payable on retirement is fixed by the employer when the Pension Service is planned and put in operation.

PART IV.—THE TECHNIQUE OF MANIPULATION

(Continued from page 533)

large part of the floating supply, there will not be much long stock to come on the market, and buyers will considerably outnumber sellers. This leads to a rapid rise in the price on continually increasing volume. The public follows the lead of the floor traders.

The best way to advertise a stock is to make it active and strong; the ticker is the market's greatest publicity agent. Reputable newspapers always try to print explanations for market movements, because their readers demand information. And so, without the manipulator lifting a finger, financial writers in the daily press hasten to print all the available gossip and news, and also analyze the company's financial reports, trade conditions and business outlook. The buying generates the news, not vice versa.

As public buying increases, the volume continues to grow, and the manipulator begins to sell short against his calls, perhaps feeding out also a certain amount of long stock that he may have accumulated on his own account on the way up. Selling against his calls creates a short interest that will lend strength to the market when the time comes to unload the pool's accumulation. As the manipulator's calls, in this instance, averaged five points higher than the cost of the pool's line of stock, it is perhaps only fair that he should obtain a correspondingly higher price, and there was nothing in his agreement to prohibit him from buying shares on his own account so long as he makes money for the pool.

If, at any point of the marking up stage, floor traders and others show a disposition to throw too much stock on the market, the manipulator may send another broker, the "bid up man," into the crowd to bid for a round lot, say 5,000 shares ⅛ above the market, but

actually taking as little of that amount as possible. Then the original pool brokers start bidding up the stock again by fractions, and in small lots. This renewed demand, coming apparently from many sources, will usually scare off the sellers and bring in fresh buying.

As the day approaches for the stock to sell ex-dividend, weakness begins to develop in other stocks around the room, there is a tendency for the buying in Consolidated Electric to slacken, although the volume is still quite heavy. The manipulator knows from long experience that he will not be able to mark up the price much higher without adding considerably to his line, and that the time has now come to commence distributing before it is too late. The big money in a boom is always first made by the gambling public—on paper—but it usually remains on paper. The biggest task of all now remains for the manipulator to convert the pool's paper profits into cash.

The next instalment will conclude the Technique of Manipulation.

THREE PER CENT BONDS—RELICS OR FORERUNNERS?

(*Continued from page* 531)

issues such as the senior securities of roads like *Union Pacific*, twenty-year maturities sell at less than 4.45%. It is with such bonds that divisional "threes" must be placed in competition. U. S. Treasury 3¾s of 1956 sell to yield 3.63%, but, of course, tax exemption plays a role, and it is possible that the pure money rate, as shown by United States Bonds, in and of itself, must soon go below 3½%. Hence, it seems plausible to assume that highest grade corporation credit ought to dip below the four per cent average in about two years. In such an event, the three per cents, at present prices, remain quite attractive.

This deduction is fortified by a study of the underlying strength of the money market today. No sooner does any exceptional combination of circumstances force the money rate temporarily above, say, four per cent, than a flood of funds is called forth, which immediately depresses the rate. Coupled with lower rates in London and Berlin than prevailed in the inflationary periods, and with European return to American investments, the old alignment in favor of drastic reductions in interest rates is being manifested. After all, the fact that American rails could be offered in a London market, saturated with funds, was one of the prime causes of the three per cent bonds of long ago. There is good reason to believe that the United States is repeating the saturation history of England, and this, coupled with European demand, ought, theoretically, to reduce interest rates even below the low rates of the nineties.

THE HIGH COST OF BEING A BROKER

(*Continued from page 523*)

to make a fair return to the firm which we visualized earlier as starting with a capital investment of approximately $350,000. But when one stops to consider that there is one firm with 40 branches or offices, another with 28 and another with 19 and that the total of firms with one or more branch offices is 110, one perceives that such houses would have to do a vastly greater business than 470,000 shares per annum to make expenses.

The reader has perhaps concluded that it is the endeavor of the writer to establish the argument that the brokerage business is a losing game. In a great many cases it is. There are, to be sure, a number of large firms which make very handsome profits from the commission end of the business, but there is still a larger number whose profits compare unfavorably with many other lines of human endeavor.

The "Big Money"

The "big money" in Wall Street is not made in the commission business but by the "houses of issue," *i. e.*, firms who underwrite and sell securities. The profits in a year of successful underwriting make the profits made by commission houses seem beggarly in comparison. Incidentally, the underwriting game is no sinecure either. But that is another story. Suffice to say that the successful broker cannot hope to match the profits of the successful underwriter.

Many brokerage houses are occasional underwriters and perhaps conduct a retail bond business as an adjunct to the brokerage business. Others go in for cotton and grain as well as stocks and bonds. This makes for diversification, for if stocks become inactive, cotton or wheat may become lively and bridge the gap. The principal of diversification is just as important in the brokerage business as it is in agriculture.

Lest the writer seem to picture the brokerage business in too drab colors, let it be said in conclusion that it is as good a business as many and perhaps better than some.

But it requires a natural aptitude, long training and experience, ability to work hard, the power to visualize and the faculty of picking and guiding others. The individual with those qualities, plus a real liking for the intricate game of Wall Street, need have no fear of the outcome if he finds himself in a position to enter the brokerage business.

But that individual who goes into the brokerage business under the delusion that it is a profession of short hours, light work, freedom from worry and yielding large profits, is destined to a rude, sad and expensive awakening.

Bank and Insurance Stocks

Quotations as of Recent Date

	Bid	Asked
NATIONAL BANKS:		
American Ex-Pacific (18A)	434	440
Chase (20A)	425	430
Chatham & Phenix (16)	361	370
Chemical (24)	790	.
City (20A)	610	617
Commerce (16)	381	386
First (N. Y.) (100A)	2545	2575
Hanover (27)	1045	1065
Park (24)	485	495
Public (16)	548	555
Seaboard (16) (F)	615	630
TRUST COMPANIES:		
Bankers (20)	625	633
Bank of N. Y. & Trust Co. (22)	615	630
Brooklyn (30)	775	790
Central Union (33)	858	868
Empire (16)	345	350
Equitable (12)	268	272
Farmers' L. & T. (16)	560	570
Guaranty (12)	392	398
Irving-Columbia (14)	320	325
Manufacturers (20)	523	530
New York (20)	530	535
United States (60)	1725	1760
STATE BANKS (NEW YORK):		
America (12) (V. T. C.)	355	365
Corn Exchange (20)	590	600
Manhattan Co. (8C)	225	230
State (16)	590	610
United States (10)	314	320
INSURANCE COMPANIES:		
Aetna Fire (24)	540	550
Aetna Life (12)	680	690
*Fidelity-Phenix (6)	187	192
*Continental (6)	130	134
Glens Falls (1.60)	38	41
Globe & Rutgers (28)	1425	1450
Great American (16)	284	287
Hanover (5)	184	190
Hartford Fire (20)	520	540
*Home (18)	348	354
*Carolina (1)	28	31
Milwaukee Mech. (2.20)	32	35
National Fire (20)	710	730
Niagara (10)	228	238
*North River (4)	107	115
*United States (4.80)	139	145
Stuyvesant (6)	213	219
Travelers (20)	1205	1220
Westchester (2.50)	45	46
SURETY AND MORTGAGE COMPANIES:		
American Surety ([illegible])	183	188
National Surety (9)	218	223
Lawyers Mortgage (14)	288	293
Mortgage Bond (8)	142	152
JOINT STOCK LAND BANKS:		
Bankers of Milwaukee	90	100
Chicago (6)	115	12[illegible]
Dallas (10)	142	150
Denver (8)	124	129
Des Moines	93	98
First Carolina (8)	122	126
Kansas City (6)	116	120
Lincoln (9)	131	135
New York (10)	145	155
St. Louis (9)	140	150
Southern Minnesota	93	96
Virginia (.50B)	7	7½

(A) Includes dividends from Securities Company. (B) Par $5. (C) Par $50. (D) Ex-rights. *Members same group. (F) Ex-dividend.

THE most important legal development in some time in the banking field has been the decision of the Appellate Division of the Supreme Court of New York upholding the voting trust of the Bank of America. This decision vacates an injunction granted against the voting trust this spring, and has great significance for the future of mergers and bank control generally.

Voting trusts have been valid in the case of National Banks, and the upholding of them in respect of a New York state bank practically ensures the continuance of the practice in all varieties of financial institutions. In effect, it permits a non-voting stock situation, but instead of the stockholders abnegating the right to vote in perpetuity, the voting trust rescinds that right for a definite term. In New York the maximum has been ten years. An amendment to the Stock Corporation law of New York as yet prohibits such voting trusts in the future, but the strong affirmation of the Appellate Division as to the equity of voting trusts may be expected to affect legislation. Although the decision goes far beyond banks in its ultimate implications, yet, in effect, it gives the management of banks a ready weapon against those who would seek to purchase control in the open market. The majority of mergers do not take place in such a manner so that it is as yet difficult to foresee what this decision may do to the tendency to effect mergers especially among metropolitan institutions.

An upward curve of deposits, after the somewhat disappointing first quar-

ter of the year is shown by some recent statements. In the second quarter of the year, Chase increased its deposits by 21 millions. Total deposits are now 813 millions. This is still well behind National City, which after its recent merger with Peoples' Trust shows deposits of 963 millions, and resources of 1.28 billions. Equitable Trust shows record resources of 512 millions.

National City in its purchase price of $845 per share for Peoples' Trust stock paid $570 for tangible assets and $275 per share for the intangible asset of good will. The latter amount, equivalent to 5.5 Millions, has been deducted from the undivided profits of National City. Naturally, any conservative bank in merging with a smaller institution whose good will has value, will pay for that value, but prudence would seem to indicate that the National City example be followed. The good will so purchased will reveal itself later in the profits of the bank, and will be divided between dividends and reserves.

That bank prosperity is not confined to the metropolitan area of New York is indicated by an extra disbursement of 10%, in addition to regular dividend of 25%, per quarter by the Union Trust of Pittsburgh, a Mellon institution.

Among joint stock land banks, the July 1st dividends reveal expected changes. Chicago and Kansas City reduced their July 1st dividend from $5 to $3, Bankers of Milwaukee and Des Moines omitted the dividend, New York initiated dividends at the rate of $10 per annum, and North Carolina has increased its disbursements from 4% to 8% per annum. The predictions and analysis in our last issue remain significant for this group of stocks.

Important Dividend Announcements

Note—To obtain a dividend directly from the company the stockholder must have his stock transferred to his name before the date of the closing of the company's books.

Ann'l Rate		Amount Declared		Stock Record	Payable
$2	Amer. Can cm.	$0.50	Q	7-31	8-16
$1	Am. La France cm.	$0.25	Q	8-2	8-16
$3	Anaconda Copper	$0.75	Q	7-17	8-23
$7	Atch., Top. & S. Fe.	$1.75	Q	7-23	9-1
6%	Atlas Powder pf.	1½%	Q	7-20	8-2
5%	Balt. & Ohio cm.	1¼%	Q	7-17	9-1
3%	Canada Southern	1½%	SA	7-25	8-2
$4	Chic. Yell. Cab.	$0.33⅓	M	7-20	8-2
$5	Col. Gas & El. cm.	$1.25	Q	7-31	8-16
$7	Col. Gas & El. pf.	$1.75	Q	7-31	8-16
$7	Consol. Cigar pf.	$1.75	Q	8-16	9-1
$5	Cont. Can. cm.	$1.25	Q	8-5	8-16
$9	Del. & Hudson	$1.75	Q	8-28	9-20
8%	Diamond Match	2%	Q	8-31	9-15
7%	Fair, The, pf.	1¾%	Q	7-20	8-1
$2.40	Fair, The, cm.	$0.20	M	7-20	8-1
$4	General Cigar cm.	$1.00	Q	7-20	8-2
$3	Household Prod.	$0.75	Q	8-16	9-1
$3	Kayser, Julius, cm.	$0.75	Q	7-19	8-2
$7	Loose-Wiles 2d pf.	$1.75	Q	7-19	8-1
7%	Macy, R. H., pf.	1¾%	Q	7-17	8-1
$5	May Dep. Stores cm.	$1.25	Q	8-16	9-1
$4	Norf. & W. Adj. pf.	$1.00	Q	7-31	8-19
$2	Orpheum Circ. cm.	$0.16⅔	M	7-20	8-2
7%	Phillips Jones pf.	1¾%	Q	7-20	8-2
$5	Postum Cereal	$1.25	Q	7-21	8-1
$3.60	Thompson, J. R.	$0.30	M	7-23	8-1
5%	Tidewater Oil pf.	1¼%	Q	7-31	8-16
$8	U. S. Rubber pf.	$2.00	Q	7-20	8-14
$5	Wab. Ry. pf. "A"	$1.25	Q	7-24	8-25
$3	Wrigley, Wm.	$0.25	M	7-20	8-2

New York Curb Market

IMPORTANT ISSUES

Quotations as of Recent Date*

Name and Dividend	1926 Price Range High	1926 Price Range Low	Recent Price
Albert Pick Barth wi	11	10	10
Amer. Gas & Elec. (1)	99⅝	64	86¾
Amer. Super Power A (1.5)	37⅞	19½	25½
Amer. Super Power B (1.5)	39	21	26¾
Centrif. Pipe (1)	27	15¾	20¾
Cities Service New (1.2)	42½	37½	41¾
Cities Service Pfd. (6)	86½	82⅝	86
Continental Baking B	30½	8¾	11½
Continental Bak. Pfd. (8)	101	86¼	93
Curtiss Aero	23⅞	15⅛	16¼
Curtiss Aero Pfd. (5)	89½	75½	85
Durant Motors	13¾	3⅛	7
Elect. Bond & Share (1)	86	56½	69
Electric Investors	74½	30¾	39
Ford Motor of Canada (20)	655	440	498
General Baking A (5)	97½	44½	54¾
General Baking B	17⅞	5	6
Gillette Safety Razor (3)	114	89	99½
Glen Alden Coal (7)	171	138½	163
Goodyear Tire & Rubber	40	28	37½
Gulf Oil (1.5)	93¾	82	86
Happiness Candy Store (50c)	8¼	6⅝	7
Hecla Mining (1)	19¼	15½	17
Horn & Hardart (1.50)	62⅞	41	55¼
International Utilities B	9⅞	4⅛	5½
Land Co. of Florida	47¾	21	27
Lion Oil & Refining (2)	25¾	20⅛	23
Metro Chain Stores	50½	25½	32¾
Mountain Producers (2)	26	23	25¾
New Mex. & Arizona Land	17	9⅛	13½
Nipissing Mining (60c)	7½	5⅛	5⅛
Northern Ohio Power	26⅛	11	13
Pacific Steel Boiler	16⅝	11	12⅛
Puget Sound P. & L. ($4)	66½	28½	29
Reo Motor (80c)	25⅝	19¼	20⅛
Rickenbacker Motor	9⅛	3	4¼
Salt Creek Producers (80c)	36	28⅞	34
Servel Corporation A	30⅛	15⅛	24⅜
Southeast Pwr. & Lt. new	46¾	20	26¾
So'east Pwr. & Lt. Pfd. (4)	66⅛	59	65¾
Stutz Motors	37⅝	19	25
Trans Lux	14	6½	9
Tobacco Products Export	4⅞	3⅛	4
Tubize Artif. Silk	240	161	190
Victor Talking Machine	97⅝	68	84

STANDARD OIL STOCKS

Name and Dividend	1926 Price Range High	1926 Price Range Low	Recent Price
Continental Oil (1)	25⅞	19½	23
Humble Oil (1.2)	99⅝	52	62¾
International Pet. (50c)	35¼	28¾	33¾
Ohio Oil (2)	67⅝	58	60
Prairie Oil & Gas	60¼	48	53¼
Standard Oil of Ind. (2.5)	70½	61¼	65¼
Standard Oil of N. Y. (1.4)	47¼	30⅝	35
Vacuum Oil (2)	109¾	94⅛	103¾

*Dividends quoted dollars per share, July 2nd.

CURB shares have developed a firm trend with a definite movement into higher ground on a degree of activity that can only be characterized as "normal." Public utilities have been strong with advances ranging from three to ten points being noted among the leaders in this group during the past fortnight. The industrials have been more irregular but on the average have shown an advancing price trend, with the oil shares, as heretofore, establishing gains with the exception of only one or two unimportant companies. In spite of the activity of some of the leading motor stocks on the "big board," the motor stocks on the Curb were generally weak and quite uninteresting, except for a late spurt in Durant Motors.

In spite of the announcement of the action of the directors in passing the dividend on the common shares of the *Puget Sound Power & Light*, the stock has held remarkably firm and is currently selling at a fraction of a point under 30, the price at which it was recently recommended in these columns as a long range speculation. The likelihood of some such dividend action was pointed out here and this step, taken by the management to conserve cash for further development, does not change our favorable opinion from the speculative viewpoint.

Another low priced utility which appears to have favorable long pull prospects but which so far has been overlooked by the trading element on the Curb is *Sierra Pacific Electric* common. The initial quarterly dividend of 50 cents a share on May first placed the stock on a $2 annual basis, providing an investment return of over 7.1% at the current price of 28. Last year this dividend was earned on a small margin during a period when operating expenses were abnormally high due to a drought which made it necessary for the company to purchase current. During the twelve months including April, the balance available for the common after all charges was in excess of $4 a share.

Sierra Pacific Electric is capitalized with 3.5 million dollars in 6% cumulative preferred and 80,000 shares of $100 par value common stock, following less than half a million of bonds of subsidiaries but no bonded debt of its own. Against this capitalization stands the company's hydro-electric generating and distributing properties valued in excess of 14 million dollars. The company has no traction property and serves the most profitable sections of Nevada including the city of Reno. The physical property, including five hydro-electric plants on the Truckee River, is maintained in good condition.

A comparatively low capitalization in proportion to property valuation and earnings together with a geographical location of equipment favorable for acquisition by some of the larger public utility holding companies has led to rumors of possibilities in this direction. Even aside from this factor, which, however, would undoubtedly whet the speculative appetite, the shares occupy an interesting market position.

MUST WE TURN TO FREE TRADE TO ASSURE CONTINUED PROSPERITY?

(*Continued from page* 519)

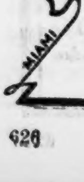
eral business comprehension that if we are to prosper in world trade with our quantity production, we must take from the world its specialized goods in payment. We cannot cripple imports without crippling our own exports. We must create a domestic demand for these foreign goods by many breaches in the tariff walls.

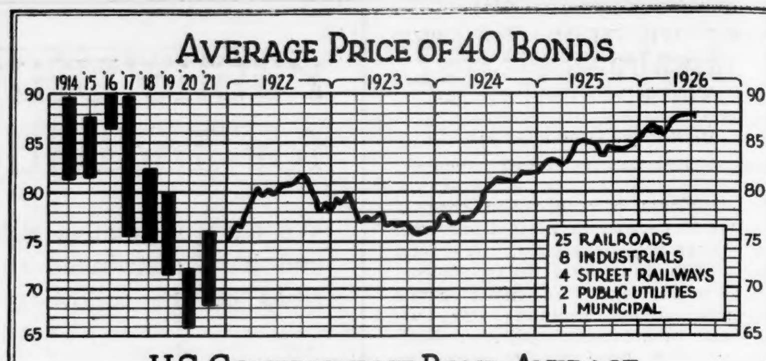
Such action will reduce the absurdity of our present situation as regards the payment of Europe's bills to us. While many demand that the Europeans pay in full, they are yet reluctant to permit payment in its only possible form, namely, by means of imported goods. There still remain the high-tariff doctrinaires at home, who in the same breath are wont to complain that the many new nations of Europe are hampering themselves because of the number of tariffs they have set up since the war. These home protectionists are zealous to see established a United States of Europe, a great customs union that will abolish tariffs among themselves just as our forty-eight states have abolished them between their frontiers. They might even exclaim in horror if we had a high tariff between New England and New York, or between Michigan, with its Fords and furniture, and the rest of this country. But they have hardly yet realized that the prosperity of the states of this Union is grounded largely in the fact that they form together, and as between each other, the greatest free-trade area in the world.

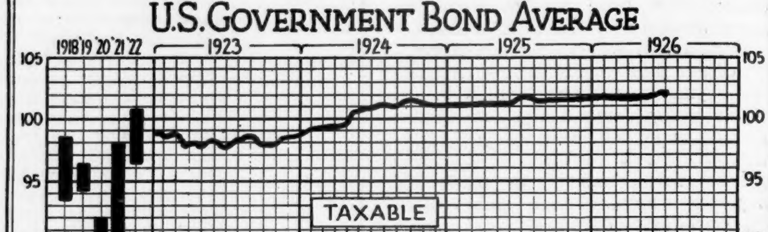
But all this must not be taken to be argument for immediate and catastrophic free trade with foreign nations. It is to point out that the current of the times, at least, is setting against any extension of the principle of protection for "weak" industries in behalf of any class, including the farmer. That way no relief lies for him. In fact, the farmer will get substantial relief if the very argument used against the Farm Relief Bill, that it would raise the price of bread to the American consumer, were directed against those who have had an artificial advantage over consumers which they no longer need.

That the administration recognizes the gravity of the issue is patent. The agricultural states of the west and south may together decide not only the Congressional elections this fall, but which party will elect the next President. True, the farmers have yet to learn the lesson of economy in large-scale business. They recklessly inflated their expenditures during the period of inflation prior to 1919; they reaped a bitter harvest in mortgage foreclosures and actual want

(*Please turn to page* 627)

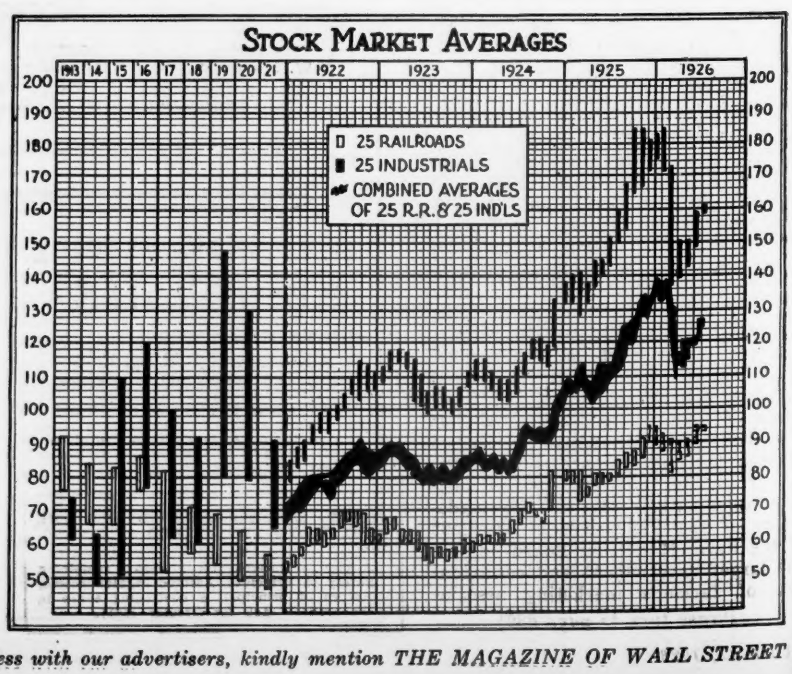






MARKET STATISTICS

	N.Y.Times	Dow, Jones Avgs.		N. Y. Times —50 Stocks—		
	40 Bonds	20 Indus.	20 Rails	High	Low	Sales
Thursday, June 24.	87.75	151.87	114.21	125.77	124.57	1,323,512
Friday, June 25...	87.59	150.80	114.13	125.74	124.31	1,276,180
Saturday, June 26.	87.59	150.68	114.05	124.75	124.32	434,295
Monday, June 28...	87.52	151.08	114.43	125.35	124.31	916,599
Tuesday, June 29...	87.51	152.61	114.55	126.39	125.17	1,401,830
Wednesday, June 30	87.44	153.04	114.70	126.94	125.64	1,675,112
Thursday, July 1..	87.51	153.01	114.80	127.03	125.93	1,673,430
Friday, July 2....	87.51	154.14	115.01	127.18	126.30	1,376,780
Saturday, July 3...		HOLIDAY		HOLIDAY		
Monday, July 5....		HOLIDAY		HOLIDAY		
Tuesday, July 6...	87.53	154.37	114.71	127.62	126.42	1,175,845
Wednesday, July 7.	87.69	155.05	114.86	127.95	126.64	1,444,955



(*Continued from page 625*)

during the deflation of 1920-21, and after. The accompanying chart of the sky-rocketing percentage of farm bankruptcies as compared with other business enterprises from 1910 to 1925, adopted from that of the National Industrial Conference Board, speaks eloquently of this. The farm failures, according to a recent report of the National Industrial Conference Board, rose from 15.5 per 100,000 in 1910-20 to 123 in 1924-25, and were reflected in a decline during the five-year period of 15 billions of dollars in the value of the farm operators' investment of 47 billions. There was a concurrent decline of about 20 billions in farm values from a total valuation 80 billions.

How this four-billions-a-year loss was sustained is further indicated in the chart of prices paid to farmers for their products compared with their costs—that is, compared with the prices the farmers paid to other industries.

Doubtless the farmers could have saved a great deal had they been organized, as the other great industries are organized, to prevent wastes between producer and consumer. They bought farms universally at inflated prices. On items of buildings and machinery they bought individually, and recklessly, during the decade prior to 1920, instead of pooling their investments in cooperative equipment at a thriftier outlay of cash and credit. Thus in the Census of 1920 the farmers' own figures on investment in machinery show an average of $7.15 for each acre of improved land in the United States. This improved land is not all tilled, and the figures on machinery exclude tractors, which are listed separately, and automobiles, some of which are used as farm trucks.

Into such purchases the American farmer entered with abandon, dissipating his efforts in individualist strivings. The deflation that sent all prices over the cliff in 1920 and 1921 has not yet ceased in its effects; and as late as 1924-25, the most favorable farm year since 1920, the labor earnings of the average farm operator, including tenants with owners, are reported by the National Industrial Conference Board to be but $804. Of this sum the farm itself supplied food, fuel and shelter in the sum of $634, leaving only $170 available for other living expenses. What this means in poverty and blight of family hopes may be but faintly imagined by all other classes of owners and wageworkers.

The persistence of the farm deflation, however, as compared with that in other industries, and of the lower range of farm commodities which has prevailed into 1926, cannot be ascribed alone to the improvidence of the farmers or to their lack of sense in business combination. Hence the inadequacy of the President's indorsement of the Farm Marketing Board bill for the larger development and consolidation of farmer's marketing associa-

(*Please turn to page 630*)

PROBLEMS OF THE AVERAGE BUSINESS—AND THE REMEDY

(*Continued from page* 527)

to cite a few men, representative of a wide range of enterprise including banking, utilities, manufacturing, transportation.

This fact does not mean that the business management of America should abdicate in a body in favor of the gentlemen of bench and bar, nor that every business man must take a law course before he is competent to head up an industrial, commercial or financial organization, but that—discounting the incident of personality—a certain habit of thought and quality of mind were bred in the solving of legal problems which were effective when transferred to the solution of business problems. The practice of law is the application of the theory of law on a basis of fact. A high type of legal mind becomes habituated to the facing of facts and the practice of analyzing and rating them. Motive, the "why" of the act, as well as the act itself is also considered and the mental processes of the other fellow are studied in order to know what he is thinking and feeling.

Managements that have been employing the newer principles of production and distribution with success have seen that economy of production must infiltrate the entire production process. The restrictive immigration laws have made it impossible to look to an unlimited supply of cheap labor. Wherever processes can be taken over by machinery, they are being so taken over. Production methods are thoroughly overhauled.

The control of every detail of mechanical production from raw material to shipping department; the keeping of accurate costs; the elimination of waste—all of these procedures are a part of the new management which would keep in step with the new principles.

Every device that will yield a return in cost-reduction is worthy of consideration. One executive has said that any machine or cost-cutting device that will save enough to pay for itself in five years should be promptly purchased and installed.

The Human Equation

But there is a far more vital factor in American industry that can be adequately accounted for by physical conditions, methods, processes, or machines. That is the much-discussed human factor. The importance of the employees of an industry has been much talked about since the war. More has been said about it, in fact, than has been done about it. It is a subject that always intrudes wherever our industrial and business future is discussed. Our wage levels stay up while price levels come down. "Isn't this," says the bewildered executive who has been unable to catch up, "the nigger in the woodpile? Must we not reduce wages before we can hope to compete?" The answer is that, in the new order of things, maintenance of our wage levels and the standards of living which they permit, is essential. High wages mean corresponding purchasing power; greater consumability, potential market for more products—a fact England and European countries are just beginning to realize. There is, occasionally, a statement that America can never compete with Germany and with France and England once those countries hit their industrial stride because they can turn out goods cheaper than we can because of the lower wages paid their labor. This contention does not jibe with the actual performances of those of our manufacturers who have maintained high wages and along with them a high per man output; those concerns, in other words, which have managed to get in return for wages paid one hundred cents on their dollars of wage expenditure.

A reduction in wages is one of the first expedients which in the past has occured to management when it becomes evident that the business must reduce costs. Instead of reducing costs per unit of output, many wage reductions have just the opposite effect and costs actually go up. Why? Because the return-value on the reduced wage is proportionately less than that received for the higher wage.

Instead of reducing wages, the brains of the business should devote itself to the raising of per capita value-received in productive effort in return for a wage, and let those wages be as high as possible, as long as they show up full measure in high quality low-cost output. A 100-cents return on the wage dollar is not common. Therein lies the big opportunity for the manufacturer who must meet competition; must get a favorable selling price; keep quality to high standards and show profit on his investment. It is quite common to find such concerns receiving in effort only from seventy to eighty per cent of the value represented by the dollars paid in wages. The definite, basic reason for such short return is found in the individual attitude of the employee. Every worker's attitude toward his job, toward the business, toward industry in general, based on his limited understanding of the essential facts, governs his performance. If his attitude is careless and negative, his day-to-day performance definitely reflects that condition, in output. The principal factors which produce this short return on the wage dollar are set forth in the attached graph.

Correcting conditions in industry, therefore, is only a part of the work of rebuilding wage values, although conditions have received the major attention. An even more vital need is to devote an equal degree of attention to the factor which is actually the most common cause of absenteeism, waste material, waste time, inefficiency, dissatisfaction, etc., namely the individual attitude of the wage worker, the mental driving force which governs his effort. To the stockholder, the consumer, the manager and to fellow-workers the practical importance of attitude-toward-the-job has been glimpsed only faintly. It is actually a controlling factor. When negative and destructive attitudes crystallize in open strife, a costly example is afforded of the importance of the attitude factor. But where no strife condition has existed for years and years the negative attitudes of workers are taking toll from the assets of the business in daily and hourly performances and the cost to the business is just as real as though it were written on the ledger. On a payroll of one thousand workers, it is not uncommon to find 500 workers who are delivering, in actual value, not more than 75% of what is easily possible without strain. At an average wage of $4 per day, this shows an aggregate short-return of $500 per day or $150,000 in a year of 300 working days. The possibilities of utilizing this amount in reductions of price or in net profit are apparent. The short return can be built up by scientifically building up the productive desires and capabilities of employees.

Building wage values is a proven remedy for many of the problems of the average business. The human element is a source of wastes and losses which Secretary Hoover and other engineers have estimated to be as high as 30% of the total value of production. In working under capacity, employees create influences which reverberate through-industry. The concern suffering from short return on wages cannot step along with the new principles: Economical, high quality production; low selling prices; steady profits, high wages. A worker who gives $10 worth of effort for $20 in pay is, in the final analysis, harming himself. The loss he imposes on the business for which he works, added to hundreds of other similar wasteages places an intolerable burden on management and capital. Businesses that are not making profits cannot continue to stay in business. If a manufacturer cannot cope with the market requirements, low price, quality standards and prompt delivery, his market slips. Of all the risks which by daily and hourly decisions the management must meet, this risk of losing market is the one most to be avoided. A condition of short return value on wages affects market; imposes a risk which is of too much moment to be ignored. Its removal, by the salvaging of losses which root in human attitudes and motives, is a vital prerequisite for getting into step with the new principles of doing business. Converting these losses into profits is being accomplished, and such conversion constitutes a sound, far-reaching solution of business problems.

Dividends

Julius Kayser & Co.

A dividend at the rate of seventy-five cents per share upon the shares of the no-par-value Common Stock of Julius Kayser & Co., issued and outstanding, has been declared, payable August 2nd, 1926, to the holders of record of such stock at the close of business July 19th, 1926.
Dividend checks will be forwarded by Guaranty Trust Company of New York.

CHARLES J. HARDY, Secretary.

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The books, booklets, circulars and special letters listed below have been prepared with the utmost care by investment houses of the highest standard. They will be sent free on request, direct from the issuing house. Ask for them by number.
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tions, with 100 millions of public money provided for working capital to improve marketing machinery and eliminate waste in distribution. That would help, but it would not go far. For, manifestly, the post-war disparity between prices of agricultural commodities and industrial goods is established by the world market for farm products, while the high prices of industrial products charged to the disadvantage of all American consumers are due in large measure to tariff favors and immunities written into the statutes by their beneficiaries.

Because of the world situation, therefore, and because of the expansion of American industry and its need of wider markets at home and abroad, the high duties in the tariff schedules have rapidly become out-dated. On this score the administration at Washington has no doubt heard from far-sighted Republican manufacturers and exporters, as well as from the banking community which has in charge the nation's foreign investment interests. A realignment of forces within the Republican organism is needed to meet the insurgency of the electorate of the Middle West. With all due regard for the interests vested in the present tariff—and they should be carefully considered—real relief can come to the agricultural States and to the broader industrial interests through a downward revision. Only prompt action will prevent a split in the ruling party through the defection of the agricultural States, and a betterment of the prospects for an incoming Democratic administration comparable with that of 1892, when Grover Cleveland came to the Presidency.

But such a revision should come, not because it will serve one or the other great political party, but because it will advantage alike the farmers and big business and help this country in its role of industrial and financial world leadership.

TRADE TENDENCIES

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sion from present conditions must be expected at least into August, it is probable that no serious change will take place during the current quarter. Reports shortly to be released will indicate that steel earning power during the second quarter, while less than in the preceding period, was satisfactory. The U. S. Steel Corporation, for example, should show slightly over the $3.07 earned in the first quarter.

SUGAR

Outlook More Encouraging

In consideration of the unseasonable weather prevailing simultaneously with

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large offerings of duty free sugar, the market has shown considerable strength. June has witnessed the highest average price of refined sugar since April of last year, and the general outlook for the industry is improving. While stocks are running somewhat higher than last year, resulting in low levels for raw sugar, a sustained, seasonal warm spell may be counted on to accelerate consumption and increase refiners' weekly meltings by 25% with a consequent stiffening in both raw and refined prices. As much attention in the sugar trade is now directed to weather forecasts and the thermometer as to quotations.

With the grinding season practically over in Cuba, it is estimated that the crop for this island will be close to 4.9 million tons, compared with 5.12 millions in 1925. Stocks at Cuban ports have been brought down from their May peak of 1.47 million tons; and European and Far Eastern interest in this market gives promise of larger business than was earlier indicated. Whereas, European production will be close to last year's level (curtailment in Czechoslovakia being offset by increased production elsewhere) the consumption curve indicates larger requirements for nearly every country. In the Far East a decline in production over last year is expected, and is substantiated by the fact that China and Australia have recently made heavy purchases from Cuba.

The most salutary factor in the sugar situation is the prospect that consumption will come much nearer balancing production than was indicated in early season aspects.

WOOL

Prices Stabilizing

Wool has at last begun to show definite resistance toward further price declines. Furthermore, the movement has been sufficiently sustained to present the semblance of stabilization. The descent has been checked principally by an increased consumer demand concomittant with a measure of recovery in the finished goods trade. Many buyers who have long held out for lower prices have recently been forced into the market by their low stocks. The situation has also been fortified by firm levels in foreign markets, which have attracted considerable wool into re-export from bond in the United States.

Encouraging as the present tendency appears, it cannot, however, be interpreted at present as more than a move toward stabilization. No appreciable rise to higher levels is in sight in consideration of the fact that the clothing trade is far from normal despite the recent demand in Fall lines, and the year as a whole will probably not prove a profitable one. Moreover, raw wool

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production this year, both foreign and domestic, promises to be larger than last with a substantial carry-over still unsold.

In short, while it has been recently possible to sustain prices in the face of a generally curtailed consuming demand, it is unreasonable to expect a return to normal price in fleece or fabric in the immediate future.

INTIMATE TALKS WITH READERS

THE MARK OF THE NOVICE

LET the reader look over the trading account of any customer, during a three months' period or so, and signs stand out like the well-known sore thumb indicating the character, experience and temperament of that customer. The size of the trades matters not. There are big *novices* as well as little ones: the difference being measured very often in the egotism of the higher men who refuse to believe that a 500-share trader can be even greener than the little odd-lot fellow with his 10-share nibblings.

First: the old-timer seldom or never complains, whether to his broker or anyone else. He never has *alibis* for his errors of judgment. He never registers a real "kick" with his broker. If he believes the latter has tripped up in some way, he points out his rights good-naturally and asks for an adjustment, if coming to him—and always *gets it!* He never brings up dividend credits till ample time has elapsed *after* the dividend is known to be payable, and provided it was *paid* in sufficient time to go into the *last statement rendered.* The old-timer prefers to await his next statement, because brokers depend on book-keepers and cashiers: little stock is registered in the customers' names: and crediting of dividends is an interior book-keeping adjustment 90% of the time—nothing else.

Second: the greedier kind of novice, without putting up more margin or equity, invariably wants to run his shoe-string profits into a tannery—overnight. He begins with, say, 50 shares, in three months has been trading some 100 and 200 share lots, and winds up with a healthy line of stocks carried on, say, 10 to 15 points margin: then an unhealthy reaction (always described as *healthy* by the newspapers) wipes him out. The skilled trader never gets that way! The latter aims foremost to stay in Wall Street for good, and is usually over-margined rather than under-margined, meaning, like the sensible eater—he likes to go away from the table before he feels "full."

Third: there never was a novice we have spoken to who did not believe his broker had prophetic powers, and who didn't believe that the order clerk knows (or should know) the coming "high" and "low" for the day by 10:15 A. M. If the truth may be laid bare, the customer is often the better judge of his own particular stock because he is concentrating on that *one* only. The broker and order clerk are watching *hundreds* of them. The tape is never *ahead* of quotations. It reports what *has* happened—a minute to fifteen minutes ago: it doesn't report what is happening *now.* Experts can and do anticipate what is going to happen, but this is not necessarily the broker's business, and he is not bound to forecast: and he cannot use his discretion any time.

Fourth: "That 'Whatsthis' stock you recommend is already up 10 points from the low. Why didn't you tell me sooner?" Said stock thereafter goes up 15 points more, and the novice gets the broker on the 'phone and wonders whether it still isn't a good buy? If a stock has a rise it proves only that it is having its move, only to be stopped at some definite point (very often *still higher*) when the causes creating the first rise disappear. The first rise represents well-informed, and often "inside" buying. Its rise signals to all the world that something is happening. It is often far safer to buy a stock that has "had a rise" than to go in for something that has had a good fall.

Fifth: the novice is only convinced of the merit of a stock by the time it has reached the distribution stage, which means, around the time it has had its third or fourth successive big boost upward. Sometimes there's a profit possible even then: but it's dangerous to follow the crowd which creates a broad enough market (volume) on which insiders and pools can take profits. If the rise can be analyzed into three broad stages, usually 3 to 5 points per stage, it is unhealthy to participate in the upper levels. After a sizeable setback (5, 7, to 10 points from the "high"), advantage should be taken of the reaction in the stock, in conjunction with the second or third weak day in the general market, to participate. Pools do not distribute, as a rule, in a day or two.

Sixth: the novice usually begins operations in rather low-priced stocks, believing he can learn to swim more easily in shallow water evidently! Cheap stocks have something lacking—obviously. Only millionaires and capitalists can indulge their foresight in this line, because if they happen to be wrong their loss is an incident, and they can afford to tie up capital indefinitely—till the next great bull market.

Seventh: the novice likes *action,* and usually gets it—from the margin clerk. One good trade every three months should satisfy the novice. His "position" should not be abandoned merely because "he's been in it long enough." So long as your stock is going your way, continues to show a profit, and reacts only normally and with the market trend, stay with it.

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